



Press release

1Q07 core net income up 33% to ₱2 billion

Piltel's Retained Earnings at Positive ₱2 Billion

Reported net income also at ₱2 Billion

Company's borrowings down to zero

Cellular service revenues up 24%

- Core net income up 33% to ₱1.98 billion versus ₱1.49 billion in first quarter of 2006
- Reported net income for the first quarter lower at ₱1.99 billion due to higher foreign exchange gains in previous period
- Cellular service revenues up 24% to ₱3.13 billion compared with ₱2.52 billion in first quarter of 2006
- EBITDA up 23% to ₱2.99 billion from ₱2.43 billion in same period 2006
- Retained earnings positive as of 31st March 2007
- Unrestructured bonds redeemed, resulting in Piltel being debt-free
- Subscriber base at 7.4 million; net additions of 421,000 for first three months of 2007

Manila, Philippines, 7th May 2007 - Pilipino Telephone Corporation ("Piltel") (PSE: PLTL) today announced its financial results for the first quarter of 2007, recording a net income of ₱1.99 billion compared with a net profit of ₱2.25 billion in 2006, due to lower exceptional items. Core earnings, as adjusted for the effects of foreign exchange revaluation and certain deferred tax assets ("DTAs"), stood at ₱1.98 billion in the first three months of 2007, up 33% from the ₱1.49 billion recorded for the same period in 2006.

On 30th March 2007, Piltel redeemed all of its outstanding unrestructured bonds amounting to US\$690,000. Piltel pro-actively and successfully sought out holders and offered to purchase their remaining outstanding unrestructured bonds. These unrestructured bonds were part of the convertible bonds originally issued on July 17, 1996 by Piltel International Holdings Corporation, a wholly owned subsidiary of Piltel, and guaranteed by Piltel at a face value of US\$183 million. From June 2001 to March 2004, holders of these convertible bonds agreed to participate in the Company's debt restructuring plan until such time that only US\$690,000 of the original notes remained unrestructured and unpaid. Piltel now has no outstanding borrowings.

On 20th April 2007, the Securities and Exchange Commission (SEC) issued a Certificate of Approval of Equity Restructuring to Piltel, allowing the Company to wipe out its deficit as of 31st December 2006 amounting to ₱22.25 billion against

an equivalent amount of additional paid-in capital (APIC) of the Company, subject to the condition that the Company's remaining APIC shall not be used to wipe out losses that may be incurred in the future without prior approval of the SEC. Accordingly, the Company applied the requisite APIC to wipe out its capital deficit at the end of 2006 and as a result, Piltel's retained earnings at the end of the first quarter of 2007 was ₱1.99 billion.

The Company's stockholders equity stood at a positive ₱16.55 billion as at 31st March 2007.

The completion of the quasi-reorganization/equity restructuring now puts the Company in a position to pay dividends to its shareholders. Dividends will be paid to common shareholders once the Company has paid its cumulative dividends to preferred shareholders, which totaled ₱2.64 billion as at the end of March 2007, and built up its subsequent retained earnings position to the appropriate levels.

Operating Results

Piltel's total service and non-service revenues in the first three months of 2007 grew 24% to ₱3.63 billion, compared with ₱2.92 billion for the same period in 2006 as a result of the continued growth in revenue contribution from the *Talk 'N Text* subscriber base. Piltel is the Philippines' third largest cellular operator with approximately 7.4 million subscribers on *Talk 'N Text*, the Company's prepaid GSM service. *Talk 'N Text* recorded 421,000 net additions in the first three months of 2007.

GSM net service revenues increased by 24% to ₱3.13 billion in the first quarter of 2007 from ₱2.52 billion in the same period in 2006. GSM service revenues make up 95% of Piltel's net service revenues with fixed line service revenues accounting for the balance of 5% amounting to ₱156 million.

SMS continues to be the main driver of the Company's revenues as data revenues increased by 27%, from ₱1.56 billion in the first three months of 2006 to ₱1.98 billion in the same period in 2007. Data revenues make up 63% of GSM revenues.

Piltel's total expenses increased by 357%, from ₱129 million during the first three months of 2006 to ₱591 million in the same period in 2007 due mainly to the lower foreign exchange gain in the first quarter of 2007. With the full prepayment of restructured debts in December 2006 and the full payment of convertible bonds in March 2007, Piltel no longer has any significant foreign currency-denominated liabilities subject to revaluation. The debt payment also resulted in the significant reduction in interest and other debt-related expenses.

Cash operating expenses rose by 14% from ₱240 million in the first quarter of 2006 to ₱272 million in the first quarter of 2007. Selling and promotions increased by 28%, as the Company utilized television advertising to introduce its latest offerings.

The cost of handsets and SIM packs sold also increased by ₱99 million, or 71%, to ₱239 million, due mainly to a higher number of handsets and SIM packs sold, partly offset by the lower average costs of handsets. Non-service revenues, comprised of proceeds from the sale of handsets and SIM packs, correspondingly increased by 86%, from ₱117 million in the first quarter of 2006 to ₱218 million in the first quarter of 2007.

Piltel also recognized interest income of ₱86 million in the first quarter of 2007, mainly derived from interest-bearing receivables from Smart Communications, Inc (“Smart”), a decrease compared to interest income of ₱288 million for the same period in 2006 as Piltel collected a substantial portion of its receivables from Smart to fund Piltel’s debt prepayment. Piltel’s net receivables from Smart were reduced to ₱2.80 billion as of 31st March 2007 from ₱6.08 billion as at year-end 2006.

Earnings before tax for the period grew 9% to ₱3.04 billion compared with ₱2.79 billion for the same period in 2006. However, for the first three months of 2007, Piltel recorded a provision for income tax expense of ₱1.06 billion, an increase of 94%, compared with ₱546 million for the same period in 2006 when Piltel had recognized deferred tax benefits which resulted to a lower income tax expense. The Company’s effective tax rate now approximates the statutory corporate income tax rate of 35%.

As a result of the increased tax rate this year and the higher foreign exchange gains in 2006, the Company’s reported net income was lower at ₱1.98 billion compared to ₱2.25 billion for the same period in 2006. Unlike previous years where non-recurring items such as deferred tax assets and foreign exchange gains/losses have had a significant impact on our net income, our debt prepayment and resulting nominal debt balance have closed the gap between our reported and core net income figures.

Piltel President and Chief Executive Officer Napoleon L Nazareno said: “It is now time to move on to a new stage in Piltel’s corporate life. In line with the Company’s goal to strengthen its balance sheet after the significant improvement in its operations, Piltel embarked on an aggressive debt prepayment program which culminated in the complete repayment of its restructured debt in December 2006. With the final redemption in March 2007 of its remaining unstructured bonds, Piltel has brought to a close its historic debt restructuring plan. As promised, we also sought and received approval from the SEC for our capital quasi-reorganization. As a result, we now have a positive retained earnings balance – another turnaround completed. We can now look at paying dividends

to our shareholders and we will begin by paying off the accrued cumulative dividends due to our preferred shareholders which have remained unpaid to date. Once that is completed and our retained earnings have reached an appropriate level, we should be able to pay cash dividends out of our 2007 income to our common shareholders sometime in early 2008.”

<i>(In million pesos,)</i>	Pilipino Telephone Corporation		
	For the three months ended March 31,		
	2007	2006	% Change
Service revenues	3,287	2,697	22
Non-service revenues	218	117	86
Other income	129	106	21
Total Revenues	3,634	2,920	24
Expenses	591	129	357
Income before tax	3,043	2,790	9
Reported Net income	1,985	2,245	(12)
EBITDA	2,985	2,427	23
Core Net income ^(a)	1,979	1,491	33

(a) *Net income excluding the net impact of FX gains/losses, deferred tax assets and additional debt discount*

This press release may contain some statements which constitute “forward-looking statements” that are subject to a number of risks and uncertainties that could affect Piltel’s business and results of operations. Although Piltel believes that expectations reflected in any forward-looking statements are reasonable, it can give no guarantee of future performance, action or events.

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