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S.E.C. Registration No.

P I L I P I N O T E L E P H O N E

C O R P O R A T I O N

(Company's Full Name)

25th FLR. S M A R T T O W E R

6 7 9 9 A Y A L A A V E N U E

M A K A T I C I T Y 1 2 2 6

(Business Address: No. Street City/Town/Province)

DEBORAH ANNE N. TAN

Contact Person

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Company Telephone Number

				SEC FORM 17-Q				Third Tuesday of May			
1	2	3	1	(As of June 30, 2008)				0	5	2	0
Month		Day		FORM TYPE				Month		Day	
Fiscal Year								Annual Meeting			

Corporation Finance Department						Amended Articles Number/Section					
Department Requiring this Document											

24,575 common stockholders
as at
June 30, 2008

Total No. of Stockholders

Total Amount of Borrowings

N.A.	N.A.
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

Document I.D.

LCU

Cashier

STAMPS

PILIPINO TELEPHONE CORPORATION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the six months ended June 30, 2008

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our financial statements, and the financial information discussed below, have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards, or PFRSs.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to "pesos," "Philippine pesos" or "₱" are to the lawful currency of the Philippines and all references to "dollars," "U.S. dollars" or "US\$" are to the lawful currency of the United States. Translations of Philippine peso amounts into US dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of ₱44.896 to US\$1, the volume weighted average exchange rate as at June 30, 2008 quoted through the Philippine Dealing System.

Some information in this report may contain forward-looking statements. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as "believe", "plan", "anticipate", "continue", "estimate", "expect", "may", "will" or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that assumed facts and bases almost always vary from actual results, and the differences between assumed facts and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statements made by us in this report or elsewhere speak only as of the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in million pesos, except for earnings per common share, operational data and foreign exchange rates)

	<u>June 30, 2008</u>	<u>December 31, 2007</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>%</u>
Consolidated Balance Sheets				
Total assets	23,190.0	16,830.1	6,359.9	37.8
Property and equipment - net	2,129.7	1,559.5	570.2	36.6
Cash and cash equivalents and short-term investments	12,575.6	6,161.2	6,414.4	104.1
Fixed line assets classified as held-for-sale	-	802.9	(802.9)	(100.0)
Total liabilities	2,987.5	1,832.1	1,155.4	63.1
Total equity	20,202.5	14,998.0	5,204.5	34.7
	<u>Six months ended June 30,</u>			
	<u>2008</u>	<u>2007</u>		
Consolidated Statements of Income				
Revenues	8,878.1	7,545.1	1,333.0	17.7
Expenses	1,047.1	1,251.6	(204.5)	(16.3)
Income before income tax	7,831.0	6,293.5	1,537.5	24.4
Provision for income tax	2,688.5	1,796.8	891.7	49.6
Net income from continuing operations ¹	5,142.5	4,496.7	645.8	14.4
Net income (loss) from discontinued operations ²	62.0	(940.7)	1,002.7	106.6
Net Income	5,204.5	3,556.0	1,648.5	46.4
Earnings Per Common Share				
From continuing operations	0.4368	0.3631	0.0737	20.3
From discontinued operations	0.0053	(0.0799)	0.0852	106.6
Total	0.4421	0.2832	0.1589	56.1
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	6,814.2	7,351.3	(537.1)	(7.3)
Net cash used in investing activities	1,428.7	7,520.6	(6,091.9)	(81.0)
<i>Capital expenditures</i>	793.1	114.4	678.7	593.3
Net cash used in financing activities	1.1	49.1	(48.0)	(97.8)
	<u>June 30, 2008</u>	<u>June 30, 2007</u>		
Operational Data				
Number of cellular subscribers	12,482,937	7,959,820	4,523,117	56.8
Peso to US\$ Foreign Exchange Rates	44.896	46.246		

¹ Net income from continuing operations pertains to the cellular service.

² Net income (loss) from discontinued operations pertains to the fixed line business which was sold and transferred to PLDT effective June 10, 2008.

Overview

Piltel is the third largest cellular mobile telephone service in the Philippines with 12,482,937 subscribers as at June 30, 2008.

Piltel was incorporated in the Philippines with limited liability on July 18, 1968, and listed on the PSE in July 1995. Until 1991, Piltel's sole business was providing fixed line telecommunications services in eight cities and municipalities in the Philippines. Since 1991, Piltel also operated cellular mobile telephone services using various technologies ranging from the analog AMPS technology to the digital CDMA technology. These services were substantially closed down in 2002. In April 2000, Piltel launched a digital prepaid cellular service, under the *Talk 'N Text* brand, using the GSM platform of Smart, which has since become the main component of its business. On June 4, 2008, the NTC approved the transfer of the fixed line business to PLDT.

Piltel derives its revenues from the cellular service which consists of the prepaid GSM service *Talk 'N Text*, and a lease line service making use of Piltel's remaining AMPS/CDMA network.

Piltel's prepaid GSM service, *Talk 'N Text*, operates on the network of Smart under an Omnibus Service Agreement or OSA dated December 28, 2004 and a supplementary Memorandum of Agreement or MOA dated February 1, 2008 (see Related Party Transactions). The agreements provide that Piltel's service revenues will be shared by Piltel and Smart at a rate which will depend on Piltel's service revenues for the year. Revenue sharing has been at 80%-20% in favor of Piltel since 2004. Further, Piltel pays for marketing the *Talk 'N Text* brand, acquiring subscribers, selling handsets and phone cards, and providing customer service, while Smart provides and manages the GSM infrastructure network.

Piltel's total revenues increased by 17.7 percent to ₱8,878.1 million for the first six months of 2008 from ₱7,545.1 million for the same period last year, fueled by the increase in the *Talk 'N Text* subscriber base. Piltel added 2,781,111 *Talk 'N Text* subscribers in the first six months of 2008, to reach a total of 12,482,937 subscribers as at June 30, 2008.

Expenses decreased by 16.3 percent to ₱1,047.1 million for the six months ended June 30, 2008 from ₱1,251.6 million for the same period last year due mainly to the decrease in cost of cellular handsets and SIM packs sold and depreciation and amortization expense.

Piltel's income before income tax was up 24.4 percent to ₱7,831.0 million for the six months ended June 30, 2008 from ₱6,293.5 million in the same period in 2007. Consequently, provision for income tax increased by ₱891.7 million to ₱2,688.5 million for the six months ended June 30, 2008 from ₱1,796.8 million for the same period in 2007.

Net income from continuing operations increased by 14.4 percent to ₱5,142.5 million for the six months ended June 30, 2008 from ₱4,496.7 million for the same period in 2007 due to the increase in revenues, as well as the decrease in expenses, as discussed above.

Net income from discontinued operations pertains to Piltel's fixed line business, which is the subject of a LEC Assets Sale and Purchase Agreement dated December 4, 2007 between Piltel and PLDT (see Related Party Transactions). Net income from discontinued operations increased by 106.6 percent to ₱62.0 million for the six months ended June 30, 2008 from a net loss of ₱940.7 million for the same period in 2007 due mainly to lower depreciation and amortization expense.

Total net income of Piltel increased by 46.4 percent to ₱5,204.5 million for the six months ended June 30, 2008 from ₱3,556.0 million for the same period in 2007 due mainly to higher revenues from the cellular service and lower depreciation and amortization expense.

Results from Continuing Operations (Cellular Service)

Revenues

Piltel's revenues increased by ₱1,333.0 million or 17.7 percent to ₱8,878.1 million for the six months ended June 30, 2008 from ₱7,545.1 million for the same period in 2007, with the increase fueled by the growth in the *Talk 'N Text* subscriber base. The table below shows the breakdown of revenues (in million pesos):

	Six months ended June 30,		Increase (Decrease)	
	2008	2007	Amount	%
Cellular service				
<i>Service Revenues</i>				
<i>GSM</i>				
Gross revenues	11,599.5	9,327.4	2,272.1	24.4
Less: Smart's share	2,473.9	1,889.8	584.1	30.9
Interconnection expenses	898.3	717.2	181.1	25.3
Cost of pre-loaded airtime	57.5	2.4	55.1	2,295.8
Net service revenues - GSM	8,169.8	6,718.0	1,451.8	21.6
<i>AMPS/CDMA</i>	1.2	1.1	0.1	9.1
<i>Total service revenues</i>	8,171.0	6,719.1	1,451.9	21.6
<i>Non-service Revenues</i>				
Sale of cellular handsets and SIM packs	162.0	398.0	(236.0)	(59.3)
<i>Other Income</i>				
Interest	343.0	186.0	157.0	84.4
Rent	200.6	199.2	1.4	0.7
Others	1.5	42.8	(41.3)	(96.5)
Total revenues	8,878.1	7,545.1	1,333.0	17.7

Prepaid GSM Service

In April 2000, Piltel began marketing the *Talk 'N Text* prepaid digital cellular service. In addition to voice services, *Talk 'N Text* allows customers to send and receive text messages, a service offered by competing GSM operators but one Piltel could not offer on its own AMPS/CDMA network. Under the arrangement with Smart, Piltel pays for marketing the *Talk 'N Text* brand, acquiring subscribers, selling handsets and phone cards, and providing customer service, while Smart provides and manages the GSM network infrastructure.

Since 2006, Piltel has focused on offering value-driven packages for its *Talk 'N Text* subscribers. These include new varieties of top-up service which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of calls of preset duration. Starting out as purely on-network packages, Piltel's top-up services now offer text message bundles available to all networks. Piltel also continues to offer unlimited on-network text messaging in various load denominations with designated expiration periods.

As at June 30, 2008, *Talk 'N Text* subscribers reached 12,482,937, an increase of 4,523,117 or 56.8 percent over the subscriber base of 7,959,820 as at June 30, 2007.

Cellular service revenues from *Talk 'N Text* consist of:

- a. revenues derived from actual usage of the network of Smart by *Talk 'N Text* subscribers and any unused peso value of expired prepaid cards or electronic airtime loads, net of value-added tax, discounts given to dealers, the cost of pre-loaded airtime and content provider costs; and
- b. revenues from incoming calls and messages to *Talk 'N Text* subscribers, net of interconnection expenses;

both net of Smart's share of revenues after interconnection expenses.

Service revenues from *Talk 'N Text* of ₱8,169.8 million for the six months ended June 30, 2008 increased by 21.6 percent from ₱6,718.0 million for the same period in 2007 due to a growing subscriber base.

The following table summarizes key measures of *Talk 'N Text*'s performance for the six months ended June 30, 2008 and 2007:

	Six months ended June 30,		Increase (Decrease)	
	2008	2007	Amount	%
GSM net service revenues (in million pesos)				
<i>By component</i>				
Data ³	5,435.8	4,252.5	1,183.3	27.8
Voice	2,734.0	2,465.5	268.5	10.9
Total	8,169.8	6,718.0	1,451.8	21.6
Data revenues as a % of GSM revenues	66.5%	63.3%		
Subscribers	12,482,937	7,959,820	4,523,117	56.8
Average monthly ARPU ⁴ - gross ⁵ (in ₱)	203	230	(27)	(11.7)
Average monthly ARPU ⁴ - net ⁶ (in ₱)	161	193	(32)	(16.6)

³ Refers to all text-related services, such as standard text, international text, info-text, mobile banking, ring tones, logos and Smart zed-related services, all expressed net of Smart's share of revenues, interconnect expense on SMS, related VAS content provider costs and dealer discounts.

⁴ All ARPUs are computed by dividing the revenues for the relevant service (based on actual usage) by the average of the beginning and ending number of subscribers for the particular service for the month.

⁵ Gross monthly ARPU is computed by dividing the revenues based on usage (gross of dealer discounts and allocated content provider costs) for the service, including interconnection income by the average number of subscribers (beginning number plus ending number divided by two) for the month. The average monthly ARPU for the period is then calculated as the simple average of the monthly ARPUs during the period.

⁶ Net monthly ARPU is calculated the same way as described in Note 5 above but net of dealer discounts and allocated content provider costs and with interconnection income expressed net of interconnection expense.

	Six months ended June 30,		Increase (Decrease)	
	2008	2007	Amount	%
<i>Traffic volumes (in millions)</i>				
SMS count				
Text messaging				
Bucket-priced	39,153.3	28,185.8	10,967.5	38.9
Standard text messaging	3,442.1	2,901.3	540.8	18.6
International text messaging	18.5	14.3	4.2	29.4
	42,613.9	31,101.4	11,512.5	37.0
Value-added services	211.7	238.1	(26.4)	(11.1)
Financial services	1.5	2.3	(0.8)	(34.8)
Total	42,827.1	31,341.8	11,485.3	36.6
Calls (in minutes)				
Local				
Inbound	172.7	155.6	17.1	11.0
Outbound	362.3	326.7	35.6	10.9
	535.0	482.3	52.7	10.9
International				
Inbound	249.7	197.8	51.9	26.2
Outbound	14.8	11.5	3.3	28.7
	264.5	209.3	55.2	26.4
Total	799.5	691.6	107.9	15.6

Data

Revenues from data services, which include all SMS (or “text messaging”) or text-related as well as value-added services, increased to ₱5,435.8 million for the six months ended June 30, 2008, an increase of 27.8 percent, from ₱4,252.5 million for the same period in 2007. Data revenues accounted for 66.5 percent and 63.3 percent of GSM revenues for the six months ended June 30, 2008 and 2007, respectively, as bucket-priced text messaging revenues grew by 86.1 percent from last year’s level, partly offset by the decrease in standard text messaging revenues.

Below is a table providing a breakdown of Piltel’s data revenues (in million pesos):

	Six months ended June 30,		Increase (Decrease)	
	2008	2007	Amount	%
Text messaging				
Bucket-priced	4,168.8	2,239.5	1,929.3	86.1
Standard text messaging	961.6	1,696.5	(734.9)	(43.3)
International text messaging	102.3	97.6	4.7	4.8
	5,232.7	4,033.6	1,199.1	29.7
Value-added services				
Standard ⁷	156.8	160.8	(4.0)	(2.5)
<i>Pasaload</i>	38.0	44.1	(6.1)	(13.8)
Rich media ⁸	6.9	11.8	(4.9)	(41.5)
	201.7	216.7	(15.0)	(6.9)
Financial services ⁹	1.4	2.2	(0.8)	(36.4)
Total	5,435.8	4,252.5	1,183.3	27.8

⁷ Includes standard services such as info-on-demand, ringtone/logo downloads, etc.

⁸ Includes MMS, WAP, GPRS, etc.

⁹ Includes *Smart Money*, mobile banking.

Text messaging-related services contributed revenues of ₱5,232.7 million for the six months ended June 30, 2008, an increase of ₱1,199.1 million or 29.7 percent from ₱4,033.6 million for the same period in 2007. The increase in revenues from text messaging-related services resulted mainly from Piltel's various bucket-priced text promotional offerings. Revenues from bucket-priced text messaging totaled ₱4,168.8 million for the six months ended June 30, 2008, an increase of 86.1 percent or ₱1,929.3 million from ₱2,239.5 million for the same period in 2007. Also, international text messaging increased by 4.8 percent or ₱4.7 million to ₱102.3 million for the six months ended June 30, 2008 from ₱97.6 million for the same period in 2007. However, revenues from standard text messaging decreased by 43.3 percent or ₱734.9 million to ₱961.6 million for the six months ended June 30, 2008 from ₱1,696.5 million for the same period in 2007. Value-added services, which contributed revenues of ₱201.7 million for the six months ended June 30, 2008, decreased by ₱15.0 million or 6.9 percent from ₱216.7 million for the same period in 2007, due to lower usage of standard, *Pasaload* and rich media services.

Voice

Below is a table providing a breakdown of Piltel's voice revenues (in million pesos):

	Six months ended June 30,		Increase (Decrease)	
	2008	2007	Amount	%
Local				
Inbound	252.3	190.8	61.5	32.2
Outbound	1,158.5	1,073.6	84.9	7.9
	<u>1,410.8</u>	<u>1,264.4</u>	<u>146.4</u>	<u>11.6</u>
International				
Inbound	1,143.6	1,030.3	113.3	11.0
Outbound	179.6	170.8	8.8	5.2
	<u>1,323.2</u>	<u>1,201.1</u>	<u>122.1</u>	<u>10.2</u>
Total	<u>2,734.0</u>	<u>2,465.5</u>	<u>268.5</u>	<u>10.9</u>

Revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased to ₱2,734.0 million for the six months ended June 30, 2008, or up by 10.9 percent from ₱2,465.5 million for the same period in 2007 due to an increase in local service revenues by 11.6 percent, or ₱146.4 million from ₱1,264.4 million in 2007 to ₱1,410.8 million in 2008. International long distance revenues also increased by 10.2 percent, or ₱122.1 million from ₱1,201.1 million for the six months ended June 30, 2007 to ₱1,323.2 million for the same period in 2008. Voice revenues contributed 33.5 percent of GSM revenues for the six months ended June 30, 2008 compared with 36.7 percent for the same period in 2007.

For a complete list of *Talk 'N Text* rates and tariffs, please refer to Annex B.

Subscribers

The *Talk 'N Text* subscriber base increased by 4,523,117 or 56.8 percent from 7,959,820 as at June 30, 2007 to 12,482,937 as at June 30, 2008. Net activations for the six months ended June 30, 2008 and 2007 were 2,781,111 and 985,441, respectively.

ARPU

Gross ARPU of *Talk 'N Text* subscribers decreased by 11.7 percent to ₱203 for the six months ended June 30, 2008 from ₱230 in the same period last year. The decline was attributable to a decrease in the

average revenue per subscriber from outbound local and incoming IDD calls, as well as lower revenues from SMS and VAS. On a net basis, ARPU for the six months ended June 30, 2008 was ₱161 or 16.6 percent down from ₱193 for the same period in 2007.

Churn

Piltel calculates the average monthly churn rate for prepaid subscribers in a given period by dividing total disconnections in the period by the average of the beginning and ending number of subscribers for the month all divided by the number of months in the same period.

A prepaid cellular subscriber is recognized as an active subscriber when that subscriber activated and used the SIM card in the handset, which contains pre-stored air time. The pre-stored air time, which can be used for both voice and text, is ₱1 plus 25 free SMS (₱1 plus 50 free SMS until January 31, 2008) which could only be used upon purchase or reload of air time of any value. Subscribers can reload airtime by purchasing “call and text” cards; by purchasing additional air time “over the air” via *Talk ‘N Text* load; and by receiving loads via *Pasaload*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last load. Piltel’s policy is to recognize a prepaid subscriber “active” only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

The average monthly churn rate for *Talk ‘N Text* subscribers for the period ended June 30, 2008 was 4.3 percent, versus the churn rate of 3.4 percent for the same period in 2007.

AMPS/CDMA Service

Piltel leases out AMPS/CDMA telephone lines to a few corporate subscribers. Net revenues from this service amounted to ₱1.2 million and ₱1.1 million for the six months ended June 30, 2008 and 2007, respectively. The AMPS/CDMA services were significantly reduced with the decommissioning of all but six cell sites.

Non-Service Revenues

Sale of prepaid cellular handsets and SIM packs decreased by 59.3 percent to ₱162.0 million for the six months ended June 30, 2008 from ₱398.0 million for the same period in 2007 due to lower price of handsets and SIM packs sold.

Other Income

Piltel recorded interest income of ₱343.0 million for the six months ended June 30, 2008, an increase of 84.4 percent or ₱157.0 million from ₱186.0 million for the same period in 2007. Piltel earns interest from its cash and short-term investments, as well as from its net receivable from Smart pursuant to a MOA signed in May 2005 (see Related Party Transactions).

Rent income of ₱200.6 million and ₱199.2 million for the six months ended June 30, 2008 and 2007, respectively, pertained mostly to co-location income from Smart (see Related Party Transactions).

Expenses

Total expenses decreased by ₱204.5 million or 16.3 percent to ₱1,047.1 million for the six months ended June 30, 2008 from ₱1,251.6 million for the same period in 2007 due mainly to the decrease in cost of cellular handsets and SIM packs sold and depreciation and amortization, partly offset by an increase in taxes and licenses, rent and professional and other service fees.

(in million pesos)	Six months ended June 30,				Increase (Decrease)	
	2008		2007		Amount	%
	Amount	%	Amount	%		
Selling and promotions	346.1	33.1	371.0	29.6	(24.9)	(6.7)
Cost of cellular handsets and SIM packs sold	234.0	22.3	447.1	35.7	(213.1)	(47.7)
Depreciation and amortization	211.4	20.2	302.1	24.1	(90.7)	(30.0)
Taxes and licenses	83.9	8.0	56.6	4.5	27.3	48.2
Rent	62.6	6.0	2.5	0.3	60.1	2,404.0
Professional and other service fees	38.9	3.7	2.0	0.2	36.9	1,845.0
Maintenance	26.3	2.5	29.4	2.3	(3.1)	(10.5)
Write-down of inventories to net realizable values	14.9	1.4	0.7	0.1	14.2	2,028.6
Other expenses	29.0	2.8	40.2	3.2	(11.2)	(27.9)
Total Expenses	1,047.1	100.0	1,251.6	100.0	(204.5)	(16.3)

Selling and promotions decreased by ₱24.9 million or 6.7 percent to ₱346.1 million for the six months ended June 30, 2008 from ₱371.0 million for the same period in 2007 due mainly to a decrease in television advertisements.

Cost of cellular handsets and SIM packs sold decreased by ₱213.1 million or 47.7 percent to ₱234.0 million for the six months ended June 30, 2008 from ₱447.1 million for the same period in 2007 due mainly to lower average cost of cellular handsets and SIM packs. Average cost per handset for the six months ended June 30, 2008 was ₱1,253 per unit compared with ₱1,660 per unit for the same period in 2007, while average cost per SIM pack was ₱25 and ₱36, respectively, for the six months ended June 30, 2008 and 2007.

Depreciation and amortization for the six months ended June 30, 2008 decreased by ₱90.7 million or 30.0 percent to ₱211.4 million from ₱302.1 million for the same period in 2007 as some buildings were already fully depreciated. This was partly offset by the increase in depreciation for telecommunications equipment resulting from additional capital expenditures for the period.

Taxes and licenses increased by ₱27.3 million or 48.2 percent to ₱83.9 million for the six months ended June 30, 2008 from ₱56.6 million for the same period in 2007 due mainly to an increase in NTC licenses and fees.

Rent increased by ₱60.1 million to ₱62.6 million for the six months ended June 30, 2008 from ₱2.5 million for the same period last year due mainly to higher circuit rental.

Professional and other service fees increased by ₱36.9 million to ₱38.9 million for the six months ended June 30, 2008 from ₱2.0 million for the same period in 2007 due mainly to higher consultancy and legal fees.

Maintenance for the six months ended June 30, 2008 decreased by ₱3.1 million or 10.5 percent to ₱26.3 million from ₱29.4 million for the same period in 2007 due to lower electricity expense for GSM cell sites partially offset by site technical support and maintenance of ₱4.3 million incurred in the second quarter of 2008.

Write-down of inventories to net realizable values of slow-moving handsets increased by ₱14.2 million to ₱14.9 million for the six months ended June 30, 2008 from ₱0.7 million for the same period in 2007.

Other operating expenses decreased by ₱11.2 million or 27.9 percent to ₱29.0 million for the six months ended June 30, 2008 from ₱40.2 million for the same period last year due mainly to a gain in fixed asset disposal of ₱0.6 million for the six months ended June 30, 2008 as against a loss of ₱14.3 million for the same period in 2007, partially offset by an increase in security expense.

Provision for Income Tax

Piltel recorded provision for income tax of ₱2,688.5 million for the six months ended June 30, 2008, an increase of ₱891.7 million or 49.6 percent from ₱1,796.8 million provision for the same period in 2007 due to a higher income before income tax (*see Note 5 – Income Taxes of the notes to accompanying unaudited consolidated financial statements*).

Net Income from Continuing Operations

Net income from continuing operations for the six months ended June 30, 2008 was ₱5,142.5 million, an increase of 14.4 percent or ₱645.8 million from ₱4,496.7 million recorded in the same period a year ago. The increase was a result of higher revenues and lower expenses in 2008 compared with 2007.

Results from Discontinued Operations (Fixed Line Service)

On December 4, 2007, Piltel and PLDT entered into a LEC Assets Sale and Purchase Agreement, under which Piltel agreed to sell its fixed line business to PLDT (*see Note 18 – Related Party Transactions of the notes to accompanying unaudited consolidated financial statements*). On June 4, 2008, the NTC approved the transfer of Piltel's LEC assets to PLDT. PLDT paid a total of ₱866.9 million (including VAT and net of taxes withheld) to Piltel. Correspondingly, all the LEC assets and liabilities relating to the transfer were removed from Piltel's books.

The following table summarizes the results of discontinued operations for the six months ended June 30, 2008 and 2007 (in million pesos):

	Six months ended June 30,		Increase (Decrease)	
	2008	2007	Amount	%
Revenues	229.0	307.0	(78.0)	(25.4)
Expenses	167.0	1,247.7	(1,080.7)	(86.6)
Net income (loss) from discontinued operations	62.0	(940.7)	1,002.7	106.6

Revenues

	<u>Six months ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>%</u>
<i>Service revenues</i>				
Gross revenues	272.4	364.9	(92.5)	(25.3)
Less: Interconnection expenses	43.9	59.0	(15.1)	(25.6)
Net service revenues	228.5	305.9	(77.4)	(25.3)
<i>Other income</i>	0.5	1.1	(0.6)	(54.5)
Total revenues	229.0	307.0	(78.0)	(25.4)

Revenues from the fixed line service consisted of:

- a. monthly basic service charges, including additional local tolls based on the Local Measured Service in excess of the applicable minimum basic monthly charge;
- b. outbound usage revenues derived from international and domestic long distance calls but net of interconnection fees corresponding to outgoing usage revenues;
- c. incoming revenue share from interconnection with other carriers; and
- d. other miscellaneous charges such as installation charges and other one-time fees.

Total revenues from the fixed line service amounted to ₱229.0 million for the six months ended June 30, 2008, a decrease of 25.4 percent from ₱307.0 million for the same period in 2007 due to a lower number of days in 2008 as the fixed line service was transferred to PLDT after the NTC approval on June 4, 2008.

Expenses

Total expenses decreased by ₱1,080.7 million or 86.6 percent to ₱167.0 million for the six months ended June 30, 2008 from ₱1,247.7 million for the same period in 2007 due to lower depreciation and amortization and provision for doubtful accounts.

(in million pesos)	<u>Six months ended June 30,</u>				<u>Increase (Decrease)</u>	
	<u>2008</u>		<u>2007</u>		<u>Amount</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Maintenance	97.6	58.4	41.0	3.3	56.6	138.0
Professional and other service fees	35.4	21.2	42.5	3.4	(7.1)	(16.7)
Depreciation and amortization	19.3	11.6	1,132.0	90.7	(1,112.7)	(98.3)
Rent	8.9	5.3	8.1	0.6	0.8	9.9
Provision for doubtful accounts	2.8	1.7	14.9	1.2	(12.1)	(81.2)
Other expenses	3.0	1.8	9.2	0.8	(6.2)	(67.4)
Total Expenses	167.0	100.0	1,247.7	100.0	(1,080.7)	(86.6)

Maintenance for the six months ended June 30, 2008 increased by ₱56.6 million or 138.0 percent to ₱97.6 million from ₱41.0 million for the same period in 2007 due to higher electricity and maintenance expense for the exchanges.

Professional and other service fees decreased by ₱7.1 million or 16.7 percent to ₱35.4 million for the six months ended June 30, 2008 from ₱42.5 million for the same period in 2007 due mainly to lower management fees as well as lower billing and collection agency fees.

Depreciation and amortization for the six months ended June 30, 2008 decreased by ₱1,112.7 million or 98.3 percent to ₱19.3 million from ₱1,132.0 million for the same period in 2007. The significant expense in 2007 was due to a change in the estimated useful lives of certain fixed line network assets owing to continuing network upgrade and expansion.

Rent increased by 9.9 percent or ₱0.8 million to ₱8.9 million for the six months ended June 30, 2008 from ₱8.1 million for the same period in 2007 mainly due to higher pole rental.

Provision for doubtful accounts amounted to ₱2.8 million for the six months ended June 30, 2008, a ₱12.1 million or 81.2 percent decrease from ₱14.9 million for the same period last year. The provision pertained to E.O. 109 and RTS subscriber receivable accounts.

Other expenses decreased by ₱6.2 million or 67.4 percent to ₱3.0 million for the six months ended June 30, 2008 from ₱9.2 million for the same period last year due to the decrease in security and sanitation expense, as well as taxes and licenses.

Net Income from Discontinued Operations

Net income from discontinued operations for the six months ended June 30, 2008 was ₱62.0 million, an increase of 106.6 percent or ₱1,002.7 million from a net loss of ₱940.7 million recorded in the same period a year ago. The increase was a result of lower expenses, partly offset by a decrease in revenues.

Liquidity and Capital Resources

The following table sets out Piltel's cash flows, capitalization and other selected financial data as at June 30, 2008 and 2007, and December 31, 2007:

(in million pesos)	<u>Six months ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>%</u>
Cash Flows				
Net cash provided by operating activities	6,814.2	7,351.3	(537.1)	(7.3)
Net cash used in investing activities	1,428.7	7,520.6	(6,091.9)	(81.0)
<i>Capital expenditures</i>	<i>793.1</i>	<i>114.4</i>	<i>678.7</i>	<i>593.3</i>
Net cash used in financing activities	1.1	49.1	(48.0)	(97.8)
	<u>June 30, 2008</u>	<u>December 31, 2007</u>		
Capitalization				
Finance lease obligation	42.5	42.5	-	-
Equity	20,202.5	14,998.0	5,204.5	34.7

As at June 30, 2008, Piltel's cash and cash equivalents totaled ₱5,990.3 million.

Operating Activities

Cash flows from operations for the six months ended June 30, 2008 decreased to ₱6,814.2 million from ₱7,351.3 million for the same period in 2007 due mainly to the net build-up of Piltel's trade and other receivables for the six months ended June 30, 2008 compared with a net collection of ₱1,186.8 million for the same period in 2007, partly offset by a higher operating income before changes in assets and liabilities.

Investing Activities

Piltel's cash used in investing activities amounted to ₱1,428.7 million in the first six months of 2008 against ₱7,520.6 million for the same period in 2007. Piltel's main investing activities in 2008 comprised of net investments in money market placements with maturities of over 90 days amounting to ₱1,030.0

million, purchase of investment in debt securities of ₱538.3 million and capital expenditures of ₱793.1 million for the GSM network, partly offset by the proceeds from sale of fixed line assets of ₱791.6 million.

Financing Activities

Net cash used in Piltel's financing activities for the six months ended June 30, 2008 amounted to ₱1.1 million, compared to ₱49.1 million for the same period in 2007. Usage in 2008 pertained to the payment of cash dividends on preferred shares, while in 2007, usage pertained to the prepayment of Piltel's convertible bonds including accrued interest.

Outstanding Debt

On March 30, 2007, Piltel paid its remaining convertible bonds including accrued interest. As at June 30, 2008, Piltel's remaining outstanding debt pertain to the finance lease with the DOTC with a carrying value of ₱42.5 million.

Refer to Note 16 – Finance Lease Obligation of the notes to accompanying unaudited consolidated financial statements for further details of Piltel's debts.

Equity Financing

As at June 30, 2008, Piltel had an authorized capital of ₱12.8 billion, divided into the following:

- a. 12,060.0 million common shares with a par value of ₱1.00 per share of which 11,769.7 million shares are issued and outstanding.
- b. 120.0 million Class I preferred shares, with a par value of ₱2.00 per share of which the following are issued and outstanding:

	<u>In million shares</u>
Series A	1.9
Series C	5.2
<u>Series D</u>	<u>0.1</u>
<u>Total</u>	<u>7.2</u>

Class I preferred shares have preference over the common shares in relation to dividends and assets in the event of liquidation, dissolution or winding up.

- c. 500.0 million Class II preferred shares, with a par value of ₱1.00 per share of which there are no shares issued and outstanding.

On March 5, 2007, Piltel's Board of Directors authorized the parent company to undergo equity restructuring to eliminate the deficit as at December 31, 2006 amounting to ₱22,250.5 million against the additional paid-in capital. The equity restructuring was approved by the Securities and Exchange Commission (SEC) on April 20, 2007.

In 2007, Piltel's Board of Directors declared cash dividends on the following series of Class I preferred shares:

Series	Holders	BOD Approval Date		Payment Date		Amount of Dividends	
		In Arrears	Current	In Arrears	Current	In Arrears	Current
J	PLDT	08/06/07	08/06/07	09/03/07	09/03/07	₱2,589,338,700	₱145,064,520
		-	11/05/07	-	12/05/07	-	195,875,936
C	Various	08/06/07	12/03/07	09/17/07	01/25/08	10,457,680	1,045,768
D	City of Olongapo	08/06/07	12/03/07	09/17/07	01/25/08	150,000	15,000
A	City of Baguio	08/06/07	12/03/07	under offset arrangement*		1,246,000	124,600
						<u>₱2,601,192,380</u>	<u>₱342,125,824</u>

*Based on an agreement between Piltel and the City of Baguio dated November 11, 2005, whereby the parties agreed to offset dividends against telephone bills.

Dividends were paid on the dates stated above.

On November 5, 2007, Piltel's Board of Directors approved the redemption of the Series J preferred shares at the issue price of ₱1,000 per share for a total amount of ₱4,927.1 million plus accrued dividends of ₱195.9 million up to the redemption date, December 5, 2007.

On August 4, 2008, Piltel declared an interim cash dividend of ₱0.43 per share of common stock to holders of record as of August 15, 2008, payable on September 12, 2008. This represents close to 100 percent payout of Piltel's first half 2008 core earnings per share.

Piltel's net income for the first half of 2008 increased Piltel's equity to ₱20,202.5 million as at June 30, 2008 from ₱14,998.0 million as at December 31, 2007. Retained earnings increased to ₱5,651.5 million as at June 30, 2008 from ₱447.0 million as at December 31, 2007 due to the net income for the period.

Other Financial Data

(in million pesos)	<u>June 30, 2008</u>	<u>Dec 31, 2007</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>%</u>
ASSETS				
Noncurrent Assets				
Property and equipment - net	2,129.7	1,559.5	570.2	36.6
Investment properties	402.7	444.7	(42.0)	(9.4)
Deferred income tax assets - net	243.6	1,426.6	(1,183.0)	(82.9)
Prepayments - net of current portion	98.4	25.6	72.8	284.4
Investments and other noncurrent assets	13.8	13.9	(0.1)	(0.7)
Total noncurrent assets	<u>2,888.2</u>	<u>3,470.3</u>	<u>(582.1)</u>	<u>(16.8)</u>
Current Assets				
Cash and cash equivalents	5,990.3	605.9	5,384.4	888.7
Short-term investments	6,585.3	5,555.3	1,030.0	18.5
Investment in debt securities	538.5	-	538.5	100.0
Trade and other receivables - net	7,007.6	6,312.4	695.2	11.0
Inventories and supplies - at net realizable value	94.1	28.6	65.5	229.0
Current portion of prepayments	86.0	54.7	31.3	57.2
	<u>20,301.8</u>	<u>12,556.9</u>	<u>7,744.9</u>	<u>61.7</u>
Fixed line assets classified as held-for-sale	-	802.9	(802.9)	(100.0)
Total current assets	<u>20,301.8</u>	<u>13,359.8</u>	<u>6,942.0</u>	<u>52.0</u>
	<u>23,190.0</u>	<u>16,830.1</u>	<u>6,359.9</u>	<u>37.8</u>
EQUITY AND LIABILITIES				
Equity	<u>20,202.5</u>	<u>14,998.0</u>	<u>5,204.5</u>	<u>34.7</u>
Noncurrent Liabilities				
Asset retirement obligations	1.3	1.3	-	-
Total noncurrent liabilities	<u>1.3</u>	<u>1.3</u>	<u>-</u>	<u>-</u>
Current Liabilities				
Trade and other payables	1,174.4	1,060.7	113.7	10.7
Unearned revenue on co-location	201.0	402.1	(201.1)	(50.0)
Unearned revenue on sale of prepaid cards	291.1	321.6	(30.5)	(9.5)
Finance lease obligation	42.5	42.5	-	-
Income tax payable	1,277.2	3.3	1,273.9	38,603.0
	<u>2,986.2</u>	<u>1,830.2</u>	<u>1,156.0</u>	<u>63.2</u>
Liability directly associated with fixed line assets classified as held-for-sale	-	0.6	(0.6)	(100.0)
Total current liabilities	<u>2,986.2</u>	<u>1,830.8</u>	<u>1,155.4</u>	<u>63.1</u>
	<u>23,190.0</u>	<u>16,830.1</u>	<u>6,359.9</u>	<u>37.8</u>

Noncurrent Assets

- Property and equipment increased by 36.6 percent to ₱2,129.7 million as at June 30, 2008 from ₱1,559.5 million at year-end 2007 due mainly to the acquisition of various equipment for the GSM network.
- Investment properties, which pertain to land and buildings rented out to Smart, decreased by 9.4 percent to ₱402.7 million from year-end 2007 level of ₱444.7 million due to the retirement of land and buildings with net book value of ₱42.0 million.
- Deferred income tax assets decreased by 82.9 percent to ₱243.6 million as at June 30, 2008 from ₱1,426.6 million at year-end 2007 as Piltel utilized its deferred income tax assets on NOLCO and asset impairment (*see Note 5 – Income Taxes of the notes to accompanying unaudited consolidated financial statements*).
- Prepayments – net of current portion, which pertain mostly to deferred input VAT on purchases of telecommunications and other equipment, increased by 284.4 percent or ₱72.8 million to ₱98.4 million as at June 30, 2008 from ₱25.6 million at year-end 2007.
- Investments and other noncurrent assets of ₱13.8 million as at June 30, 2008 decreased by less than 1.0 percent from year-end 2007 of ₱13.9 million due to an increase in the allowance for

market decline in investment from ₱16.9 million at year-end 2007 to ₱17.0 million as at June 30, 2008.

Current Assets

- f. Cash and cash equivalents increased by 888.7 percent to ₱5,990.3 million as at June 30, 2008 from ₱605.9 million at year-end 2007 (see *Statements of Cash Flows in the accompanying unaudited consolidated financial statements for details of the increase*).
- g. Short-term investments, which pertained to money market placements with maturities of more than ninety days from the placement date, increased to ₱6,585.3 million as at June 30, 2008 from ₱5,555.3 million at year-end 2007 mainly due to net additional short-term investments amounting to ₱1,030.0 million.
- h. Investment in debt securities of ₱538.5 million refers to investments in bonds.
- i. Trade and other receivables increased by 11.0 percent to ₱7,007.6 million as at June 30, 2008 from ₱6,312.4 million at year-end 2007 due mainly to the increase in receivable from Smart. Receivable from Smart amounted to ₱6,818.9 million and ₱6,204.6 million as at June 30, 2008 and December 31, 2007, respectively.
- j. Inventories and supplies increased by 229.0 percent to ₱94.1 million as at June 30, 2008 from ₱28.6 million at year-end 2007 due mainly to the increase in volume of handsets inventory for *Talk 'N Text*.
- k. Current portion of prepayments increased by 57.2 percent to ₱86.0 million as at June 30, 2008 from ₱54.7 million at year-end 2007 due mainly to the increase in prepaid advertisement and promotions and prepaid taxes.
- l. Fixed line assets classified as held-for-sale pertained to Piltel's fixed line assets sold and transferred to PLDT (see *Note 6 – Discontinued Operations of the notes to accompanying unaudited consolidated financial statements*).

Equity

- m. Equity increased by 34.7 percent to ₱20,202.5 million as at June 30, 2008 from ₱14,998.0 million at year-end 2007 due to the net income recorded for the six months ended June 30, 2008.

Noncurrent Liabilities

- n. Asset retirement obligations of ₱1.3 million, which pertain to accruals for the restoration of leased cell sites, remained at year-end 2007 level.

Current Liabilities

- o. Trade and other payables increased by 10.7 percent to ₱1,174.4 million as at June 30, 2008 from ₱1,060.7 million at year-end 2007 due mainly to the increase in accrual for taxes and licenses, offset by a decrease in accrued selling and promotions.
- p. Unearned revenue on co-location decreased by 50.0 percent or ₱201.1 million, to ₱201.0 million as at June 30, 2008 from ₱402.1 million as at December 31, 2007 due to the amortization for the period of the co-location income from Smart (see *Note 18b – Related Party Transactions of the notes to accompanying unaudited consolidated financial statements*).
- q. Unearned revenue on sale of prepaid cards of ₱291.1 million as at June 30, 2008 decreased by 9.5 percent or ₱30.5 million from ₱321.6 million as at December 31, 2007.
- r. Finance lease obligation as at June 30, 2008 of ₱42.5 million remained at year-end 2007 level (see *Note 16 – Finance Lease Obligation of the notes to accompanying unaudited consolidated financial statements*).

- s. Piltel's income tax liability as at June 30, 2008 of ₱1,277.2 million pertains to regular corporate income tax or RCIT while the income tax liability as at December 31, 2007 of ₱3.3 million pertains to minimum corporate income tax or MCIT.
- t. Liability directly associated with fixed line assets classified as held-for-sale pertained to deposits collected from the fixed line subscribers that have been included in the fixed line assets and liabilities sold and transferred to PLDT.

Contractual Obligations

Refer to Note 19 – Contractual Obligations of the notes to accompanying unaudited consolidated financial statements.

Commercial Commitments

As at June 30, 2008, Piltel had no outstanding commercial commitments.

Financial Risk Management Objectives and Policies

Refer to Note 21 – Financial Assets and Liabilities of the notes to accompanying unaudited consolidated financial statements.

Related Party Transactions

In the ordinary course of business, Piltel has transactions with PLDT, Smart and other related parties. Description of major transactions follows:

Agreements between Piltel and Smart

- a. In December 2004, Piltel and Smart entered into an OSA, which covers in one agreement all of the following: (i) Piltel's use of Smart's existing GSM network and facilities; (ii) Smart's management, operations and maintenance of Piltel's cellular mobile telephone system; (iii) Smart's management of Piltel's CMTS customer service operations; and (iv) Smart's provision of administrative support and services in certain aspects of Piltel's CMTS business operations. The OSA also defined a single revenue sharing arrangement for both parties - Piltel's net revenues will be shared between Piltel and Smart at the rate of 80/20, in favor of Piltel, effective January 1, 2004 up to December 31, 2004. Piltel's net revenues will consist of: (1) actual usage of the network of Smart by Talk 'N Text subscribers and any unused peso value of expired cards or electronic airtime loads, net of VAT and content provider costs in relation to VAS; and (2) revenues from incoming calls and messages to Talk 'N Text subscribers, net of interconnection expenses.

Under the OSA, Piltel and Smart agreed that they will, from time to time, discuss the possible allocation of capital expenditure obligation, which may arise as a result of the provision of the GSM services. As at June 30, 2008, the carrying value of GSM network assets purchased by Piltel under the OSA amounted to ₱2,002.2 million.

An amendment to the OSA was entered into by Piltel with Smart also in December 2004. The amendment covers the period effective January 1, 2005 and onwards, and amended the revenue

sharing arrangement between the two companies for the said extended period. Both parties agreed that the 80/20 rate provided in the OSA will be adjusted upwards if Piltel meets the gross annual GSM subscriber revenue targets set for a given year.

On February 1, 2008, Piltel and Smart entered into a MOA to supplement the existing OSA between the parties. The MOA sets forth further the conditions for Piltel's use of the Smart system and facilities to enable Piltel to offer cellular service to its subscribers. Compensation for services to be rendered by Smart to Piltel will be based on a tiered revenue sharing arrangement, which will range from 20%-80% in favor of Smart to 83%-17% in favor of Piltel, depending on Piltel's annual GSM service revenues. At Piltel's present level of revenues, the revenue-sharing arrangement will remain at 80%-20% in its favor. Smart may revise the rate of compensation to ensure a reasonable return on its investment, in case Piltel fails to attain its projected traffic growth and revenue targets, given that Smart may incur certain capital expenditures based on Piltel's projections. The MOA covers the period from February 1, 2008 until February 1, 2010 and will be automatically renewed every six months thereafter until terminated by either party.

Smart's share in Piltel's GSM net revenues under the foregoing agreements amounted to ₱2,473.9 million and ₱1,889.8 million for the six months ended June 30, 2008 and 2007, respectively.

- b. In February 2000, Piltel entered into a MOA with Smart, whereby one party can co-locate its base transceiver stations (BTS) on the existing BTS site of the other party subject to certain terms and conditions. The monthly fee for co-location for each BTS site is ₱45,000, subject to an annual increase of 10 percent. This agreement is renewable every year unless terminated by either party.

In December 2003, Piltel entered into a MOA with Smart whereby Smart advanced the payment for the co-location fees for certain land, building and transmission facilities for the period January 1, 2004 up to December 31, 2008. Total advance payment amounted to ₱782.9 million.

In December 2004, Smart paid additional co-location fees for the period January 1, 2004 up to December 31, 2008 amounting to ₱1,227.5 million as a result of a review made by an external professional telecommunications consultant of the existing financial agreements regarding the co-location fees for the use by Smart of Piltel's transmission facilities.

Co-location income under this agreement amounted to ₱201.1 million for the six months ended June 30, 2008 and 2007. As at June 30, 2008 and December 31, 2007, the unamortized balance of the unearned co-location fees was ₱201.0 million and ₱402.1 million, respectively. The balance is presented as "Unearned revenue on co-location" under liabilities in the consolidated balance sheet.

- c. In November 2001, Piltel entered into a Billing Service Agreement with Smart for the printing and delivery of the billing statements of Piltel's LEC subscribers. Under the agreement, Piltel agrees to pay Smart an average of ₱4.60 per bill printed and an average of ₱5.40 per bill delivered. Total fees under this agreement amounted to ₱1.8 million for the six months ended June 30, 2008 and 2007.
- d. In May 2005, Piltel entered into a MOA with Smart, under which both parties agree to pay the other monthly interest charge on net liability based on the 91-day Treasury bill rate plus one percent. Interest income on Piltel's net receivable from Smart amounted to ₱136.8 million and ₱87.1 million for the six months ended June 30, 2008 and 2007, respectively.

Outstanding receivable from Smart arising from the agreements without the prepayment agreement amounted to ₱6,818.9 million and ₱6,204.6 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 12 – Trade and Other Receivables of the notes to accompanying unaudited consolidated financial statements*)

Agreements between Piltel and PLDT

On July 19, 2001, Piltel entered into a Facilities Management Agreement (FMA) with PLDT under which PLDT undertakes the management, operation and maintenance of Piltel's regional telecommunication and E.O. 109 network operations and services, including E.O. 109 fixed line build out installations, public calling offices, and payphone facilities and the systems required to support these services.

The agreement covers Piltel's RTS in Baguio, Puerto Princesa, Masbate, and Boac and E.O. 109 service in Alabel, Banga, Dapitan, Davao, Digos, Dipolog, General Santos, Kiamba, Koronadal, Pagadian, Polomolok and Surallah.

Under the agreement, PLDT also undertakes the management of the computer system, billing, revenue assurance and inter-carrier settlements reporting of Piltel's regional telecommunication service in Olongapo and Subic.

The monthly management fee payable by Piltel is based on cost and for cost components where margin is allowed, 15 percent will be applied. All third party invoices will be passed on to Piltel at cost, including VAT.

The agreement, effective for three years until July 2004, was extended for three months until October 20, 2004. The agreement shall be automatically renewed at the end of every renewal quarter for another three-month period under the same terms and conditions.

Total management fees under these agreements amounted to ₱21.8 million and ₱26.2 million for the six months ended June 30, 2008 and 2007, respectively.

Outstanding liability to PLDT amounted to ₱57.2 million and ₱5.7 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 17 – Trade and Other Payables of the notes to accompanying unaudited consolidated financial statements*).

On June 4, 2008, the NTC approved the transfer of Piltel's LEC assets to PLDT (*see Note 6 – Discontinued Operations of the notes to accompanying unaudited consolidated financial statements*).

Agreement between Piltel and SubicTel

On September 5, 2001, Piltel and SubicTel, a subsidiary of PLDT, entered into a FMA covering the regional telephone network, customer operations, network operations and payphones of Piltel in Subic and Olongapo City. The monthly management fee payable by Piltel is based on cost and for cost components where margin is allowed, 15 percent will be applied. In addition, Piltel will pay a monthly variable cost per account in the amount of ₱44.00 for repairs and maintenance and ₱6.00 for bill delivery from an exchange to a subscriber.

The agreement, effective for three years until July 2004, was extended on July 28, 2004 for three months until October 2, 2004. The agreement shall be automatically renewed at the end of every renewal quarter for another three-month period under the same terms and conditions.

Total management fees under this agreement amounted to ₱9.4 million and ₱10.6 million for the six months ended June 30, 2008 and 2007, respectively.

Outstanding liability to SubicTel amounted to ₱1.2 million and ₱5.8 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 17 – Trade and Other Payables of the notes to accompanying unaudited consolidated financial statements*).

Pursuant to the transfer of the LEC business to PLDT, the FMAs with SubicTel and PLDT, as well as the Billing Service Agreement with Smart were all terminated.

Glossary of Terms

In this document, unless the context otherwise requires, the following words and expressions shall have the following meanings:

AMPS	Advanced Mobile Phone System
ARPU	Average Revenue Per User
CDMA	Code Digital Multiple Access
DOTC	Department of Transportation and Communication
E.O. 109	Executive Order 109
GPRS	General Packet Radio Service
GSM	Global System for Mobile Communications
LEC	Local Exchange Carrier
MMS	Multi-Media Service
MTPO	Municipal Telephone Public Office
PCO	Public Calling Office
Piltel	Pilipino Telephone Corporation
PLDT	Philippine Long Distance Telephone Company
PSE	Philippine Stock Exchange
RTS	Regional Telephone Service
SEC	Securities and Exchange Commission
SIM	Subscriber Identity Module
Smart	Smart Communications, Inc.
SMS	Short Messaging Service
Subictel	PLDT Subic Telecom, Inc.
VAS	Value-Added Service
WAP	Wireless Access Protocol

ANNEX B

RATES AND TARIFFS

Talk 'N Text

Piltel holds promotions with varying rates for calls and SMS/VAS. These promotions and the corresponding rates are discussed in the section on revenues. The rates for regular call and SMS/VAS follow:

Call Rates

Talk 'N Text subscribers pay the following airtime rates per minute:

<i>Talk 'N Text</i> -to- <i>Talk 'N Text</i> subscribers	₱5.50
<i>Talk 'N Text</i> -to-Other Mobile Operators and Fixed Lines	₱6.50
NDD	₱6.50

SMS/VAS Rates

Charge for point-to-point SMS for *Talk 'N Text* subscribers is ₱1.00 per message for standard text, and charges for SMS-based VAS are as follows:

- ₱15.00 per international text;
- ₱2.50 per SMS for e-text and information-on-demand services (such as news, stock and entertainment updates);
- ₱15.00 per download of ring tones, logos, picture messages and MMS wallpapers;
- ₱2.50 per *Mobile Banking* and *Smart Money* transaction (such as balance inquiry and funds transfer);
- ₱30 and ₱45 per ringtone depending on property rights; and
- ₱30 per videoke download.

MMS Rates

Charge for point-to-point MMS is ₱1.00 per message for a *Talk 'N Text* subscriber to another *Talk 'N Text* subscriber and ₱2.00 per message to subscribers of other carriers.

Call and Text Loads

Subscribers can reload their airtime by purchasing prepaid “call and text” cards that are sold in denominations of ₱100 and ₱300; by purchasing additional air time “over the air” via *Talk 'N Text Load*, which comes in denominations of ₱15, ₱30, ₱50, ₱60, ₱100, ₱115, ₱200, ₱300, ₱500 and ₱1,000; and by receiving loads of ₱2, ₱5, ₱10, ₱15, ₱20, ₱30 and ₱60 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. *Talk 'N Text* subscribers who reload other *Talk 'N Text* or *Smart* subscribers via *Pasa Load* are charged ₱1.

Like all prepaid accounts, accounts using *Talk 'N Text Load* and *Pasa Load* will be disconnected if the subscriber does not reload within four months after full usage or expiry of the last reload.

SIGNATORIES

Pursuant to the requirements of the Securities Regulation Code, Pilipino Telephone Corporation has duly caused this report to be signed on its behalf by the following persons in their capacities stated below in the City of Makati on August 4, 2008.

PILIPINO TELEPHONE CORPORATION

By:


NAPOLEON L. NAZARENO
President & CEO


AILEEN M. MALTO
Controller

**PILIPINO TELEPHONE CORPORATION
AND SUBSIDIARIES**
(A Subsidiary of Smart Communications, Inc.)

**Consolidated Financial Statements
June 30, 2008 (Unaudited) and December 31, 2007 (Audited)
and For The Six Months Ended
June 30, 2008 and 2007 (Unaudited)**

PILIPINO TELEPHONE CORPORATION AND SUBSIDIARIES

(A Subsidiary of Smart Communications, Inc.)

CONSOLIDATED BALANCE SHEETS

AS AT JUNE 30, 2008 AND DECEMBER 31, 2007

(In Million Pesos, Except Par Value and Per Share Amounts)

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Noncurrent Assets		
Property and equipment - net (Notes 2, 3, 8, 16, 18 and 21)	2,129.7	1,559.5
Investment properties (Notes 2, 3, 9 and 21)	402.7	444.7
Deferred income tax assets - net (Notes 2, 3, 5 and 21)	243.6	1,426.6
Prepayments - net of current portion (Notes 14 and 21)	98.4	25.6
Investments and other noncurrent assets (Notes 10 and 21)	13.8	13.9
Total Noncurrent Assets	2,888.2	3,470.3
Current Assets		
Cash and cash equivalents (Notes 2, 11 and 21)	5,990.3	605.9
Short-term investments (Notes 2 and 21)	6,585.3	5,555.3
Investment in debt securities (Note 21)	538.5	-
Trade and other receivables - net (Notes 2, 3, 12, 18 and 21)	7,007.6	6,312.4
Inventories and supplies - at net realizable value (Notes 2, 13 and 21)	94.1	28.6
Current portion of prepayments (Notes 14 and 21)	86.0	54.7
	20,301.8	12,556.9
Fixed line assets classified as held-for-sale (Notes 4, 6, 8, 18 and 21)	-	802.9
Total Current Assets	20,301.8	13,359.8
	23,190.0	16,830.1
EQUITY AND LIABILITIES		
Equity		
Preferred stock, Class I, ₱2 par value, authorized 120,000,000 shares; issued and outstanding 7,218,270 shares in 2008 and 2007; Class II, ₱1 par value, authorized 500,000,000 shares; no shares issued and outstanding (Notes 2 and 15)	14.4	14.4
Common stock, ₱1 par value, authorized 12,060,000,000 shares; issued and outstanding 11,771,748,431 shares (Notes 2, 7 and 15)	11,771.7	11,771.7
Additional paid-in capital	2,800.6	2,800.6
Retained earnings	5,651.5	447.0
Cost of treasury stock held (Note 15)	(36.0)	(36.0)
Cumulative translation adjustment	0.3	0.3
Total Equity	20,202.5	14,998.0
Noncurrent Liabilities		
Asset retirement obligations (Notes 3 and 21)	1.3	1.3
Total Noncurrent Liabilities	1.3	1.3
Current Liabilities		
Trade and other payables (Notes 2, 3, 17, 18, 19 and 21)	1,174.4	1,060.7
Unearned revenue on co-location (Notes 18 and 21)	201.0	402.1
Unearned revenue on sale of prepaid cards (Note 21)	291.1	321.6
Finance lease obligation (Notes 2, 3, 16, 19, 20 and 21)	42.5	42.5
Income tax payable (Notes 5 and 21)	1,277.2	3.3
	2,986.2	1,830.2
Liability directly associated with fixed line assets classified as held-for-sale (Notes 4, 6 and 21)	-	0.6
Total Current Liabilities	2,986.2	1,830.8
	23,190.0	16,830.1

See accompanying Notes to Unaudited Consolidated Financial Statements.

PILIPINO TELEPHONE CORPORATION AND SUBSIDIARIES

(A Subsidiary of Smart Communications, Inc.)

CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Million Pesos, Except Per Share Amounts)

	Six months ended June 30,		Three months ended June 30,	
	2008	2007	2008	2007
	(Unaudited)			
CONTINUING OPERATIONS				
Revenues				
Service revenues (Notes 2, 4 and 18)	8,171.0	6,719.1	4,302.3	3,587.8
Interest income (Notes 4 and 18)	343.0	186.0	188.9	99.6
Rent (Notes 2 and 18)	200.6	199.2	99.5	99.2
Sale of cellular handsets and SIM packs (Note 4)	162.0	398.0	90.6	179.7
Other income	1.5	42.8	0.5	6.9
	8,878.1	7,545.1	4,681.8	3,973.2
Expenses				
Selling and promotions	346.1	371.0	112.6	207.5
Cost of cellular handsets and SIM packs sold	234.0	447.1	124.7	208.2
Depreciation and amortization (Notes 4 and 8)	211.4	302.1	111.1	180.0
Taxes and licenses	83.9	56.6	40.0	25.6
Rent	62.6	2.5	60.3	1.8
Professional and other service fees (Note 18)	38.9	2.0	24.7	0.5
Maintenance	26.3	29.4	15.4	14.2
Write-down of inventories to net realizable values	14.9	0.7	14.9	0.7
Other expenses	29.0	40.2	13.9	27.4
	1,047.1	1,251.6	517.6	665.9
INCOME BEFORE INCOME TAX	7,831.0	6,293.5	4,164.2	3,307.3
PROVISION FOR INCOME TAX (Notes 4 and 5)	2,688.5	1,796.8	1,412.2	739.6
NET INCOME FROM CONTINUING OPERATIONS (Notes 4 and 7)	5,142.5	4,496.7	2,752.0	2,567.7
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Notes 4, 6 and 7)	62.0	(940.7)	(5.1)	(997.0)
NET INCOME FOR THE PERIOD (Notes 4 and 7)	5,204.5	3,556.0	2,746.9	1,570.7
Earnings Per Common Share (Note 7)				
Basic	0.4421	0.2832	0.2334	0.1240
Diluted	0.4410	0.2823	0.2328	0.1236
Earnings Per Common Share From Continuing Operations (Note 7)				
Basic	0.4368	0.3631	0.2338	0.2087
Diluted	0.4358	0.3619	0.2332	0.2080
Earnings Per Common Share From Discontinued Operations (Note 7)				
Basic	0.0053	(0.0799)	(0.0004)	(0.0847)
Diluted	0.0052	(0.0796)	(0.0004)	(0.0844)

See accompanying Notes to Unaudited Consolidated Financial Statements.

PILIPINO TELEPHONE CORPORATION AND SUBSIDIARIES

(A Subsidiary of Smart Communications, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Million Pesos)

	Preferred Stock Class I	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Cumulative Translation Adjustment	Total
Balances at December 31, 2006	24.3	11,771.7	25,051.1	(22,241.0)	(36.0)	–	14,570.1
Equity restructuring (Note 15)	–	–	(22,250.5)	22,250.5	–	–	–
Net income for the period (Notes 4 and 7)	–	–	–	3,556.0	–	–	3,556.0
Balances at June 30, 2007 (Unaudited)	24.3	11,771.7	2,800.6	3,565.5	(36.0)	–	18,126.1
Balances at December 31, 2007	14.4	11,771.7	2,800.6	447.0	(36.0)	0.3	14,998.0
Net income for the period (Notes 4 and 7)	–	–	–	5,204.5	–	–	5,204.5
Balances at June 30, 2008 (Unaudited)	14.4	11,771.7	2,800.6	5,651.5	(36.0)	0.3	20,202.5

See accompanying Notes to Unaudited Consolidated Financial Statements.

PILIPINO TELEPHONE CORPORATION

(A Subsidiary of Smart Communications, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Million Pesos)

	2008	2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	7,893.0	5,352.8
Adjustments:		
Depreciation and amortization (Notes 4 and 8)	230.7	1,434.1
Provision for doubtful accounts (Notes 3, 4 and 6)	2.8	14.9
Write-down of inventories to net realizable values	14.9	0.7
Interest expense (Note 4)	2.8	3.6
Foreign exchange loss (gain) (Note 21)	2.2	(10.4)
Loss (gain) on sale of property and equipment	(0.6)	5.6
Interest income (Notes 4 and 18)	(343.0)	(186.0)
Charges to cost of sales	(9.9)	(0.2)
Gain on derivative transactions	-	(0.3)
Operating income before changes in assets and liabilities	7,792.9	6,614.8
Decrease (increase) in:		
Trade and other receivables	(489.2)	1,186.8
Inventories and supplies	(70.5)	(42.0)
Prepayments	(101.7)	14.5
Increase (decrease) in:		
Trade and other payables	148.2	(107.7)
Unearned revenue on co-location	(200.1)	(200.1)
Unearned revenue on sale of prepaid cards	(31.6)	(78.8)
Net cash generated from operations	7,048.0	7,387.5
Income taxes paid	(233.8)	(36.2)
Net cash provided by operating activities	6,814.2	7,351.3
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of short-term investments	5,555.3	5,450.4
Interest received	137.0	55.7
Proceeds from sale of property and equipment	4.1	10.8
Increase in investments and refundable deposits	-	(0.1)
Purchase of investment in debt securities	(538.3)	-
Proceeds from sale of fixed line assets classified as held-for-sale	791.6	-
Additions to property and equipment	(793.1)	(114.4)
Additions to short-term investments	(6,585.3)	(12,923.0)
Net cash used in investing activities	(1,428.7)	(7,520.6)

(Forward)

	2008	2007
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(1.1)	–
Proceeds from derivative transactions	–	0.3
Payments of long-term debt	–	(44.6)
Interest paid	–	(4.8)
Cash used in financing activities	(1.1)	(49.1)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	–	3.6
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	5,384.4	(214.8)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	605.9	556.6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,990.3	341.8

See accompanying Notes to Unaudited Consolidated Financial Statements.

PILIPINO TELEPHONE CORPORATION

(A Subsidiary of Smart Communications, Inc.)

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Pilipino Telephone Corporation (Piltel) is the third largest cellular mobile telephone service (CMTS) provider in the Philippines as measured by the number of subscribers. Piltel also provides fixed line telephone services.

Piltel was incorporated in the Philippines with limited liability on July 18, 1968, and listed on the Philippine Stock Exchange (PSE) in July 1995. Until 1991, Piltel's sole business was providing fixed line telecommunications services in eight cities and municipalities in the Philippines. Since 1991, Piltel also operated cellular telephone services using various technologies ranging from the analog AMPS technology to the digital CDMA technology. These services were substantially closed down in 2002. In April 2000, Piltel launched a digital prepaid cellular service, under the *Talk 'N Text* brand, using the Global System for Mobile Communications (GSM) platform of Smart Communications, Inc. (Smart), which has since become the main component of its business.

Piltel operates under the jurisdiction of the Philippine National Telecommunications Commission (NTC) which jurisdiction extends, among other things, to approving major services offered, including the rates charged by Piltel to its subscribers.

Piltel is 92.1 percent-owned by Smart. Smart is wholly owned and controlled by Philippine Long Distance Telephone Company (PLDT). PLDT, its ultimate parent company, is also incorporated in the Philippines.

As a result of outsourcing fully its activities to the PLDT Group (*see Note 18 – Related Party Transactions*), aside from its officers, Piltel has no employees as at June 30, 2008 and December 31, 2007.

Piltel's registered office address is 25th Floor, SMART Tower, 6799 Ayala Avenue, Makati City.

The accompanying unaudited consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD), as recommended by the Audit Committee, on August 4, 2008.

2. Summary of Significant Accounting Policies and Practices

Basis of Preparation

The unaudited consolidated financial statements have been prepared under the historical cost basis except for investment properties and available-for-sale financial assets that have been measured at fair values.

Piltel's unaudited consolidated financial statements include, in Piltel's opinion, adjustments consisting only of normal recurring adjustments, necessary to present fairly the results of operations for the interim periods. The results of operations for the six months ended June 30,

2008 are not necessarily indicative of the results of operations that may be expected for the full year.

The unaudited consolidated financial statements are presented in Philippine Peso, Piltel's functional and presentation currency, and all values are rounded to the nearest million except when otherwise indicated.

Statement of Compliance

Piltel's unaudited consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards, or PFRS. PFRS include statements named PFRS and Philippine Accounting Standards, or PAS and interpretations issued by the International Financial Reporting Interpretations Committee or IFRIC.

Basis of Unaudited Consolidated Financial Statements Preparation

The unaudited consolidated financial statements include the accounts of Piltel and the following wholly owned subsidiaries (collectively known as "the Company"):

Name of Subsidiary	Place of Incorporation	Principal Activity
Telecommunication Service Providers, Inc. (Telserv)	Philippines	Operator services
Piltel International Holdings Corporation (PIHC)	British Virgin Islands	Issuance of bonds convertible into common shares of Piltel
Piltel (Cayman) Ltd.	Cayman Islands	Bring into the debt restructuring plan holders of Piltel's convertible bonds

Subsidiaries are consolidated from the date when control is transferred to Piltel and cease to be consolidated from the date when control is transferred out of Piltel.

The unaudited consolidated financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies for like transactions and other events with similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits or losses, are eliminated upon consolidation.

Foreign Currency Transactions and Translations

The functional and presentation currency of Piltel is the Philippine Peso. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing exchange rate at balance sheet date. All differences are taken to the consolidated statement of income, except for foreign exchange losses that qualified as capitalizable borrowing costs during construction period. For income tax purposes, exchange gains or exchange losses are treated as taxable income or deductible expenses in the period such are realized.

Property and Equipment

Property and equipment, except land, are carried at cost less accumulated depreciation, amortization, and any impairment in value. Land is stated at cost, less any impairment in value.

The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its

intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, such expenditures are capitalized as additional costs of property and equipment. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency-denominated liabilities used to acquire such qualifying assets, provided that the carrying amount does not exceed the amount realizable from the use or sale of the assets. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income of such period.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets.

The residual values, useful lives and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Property under construction is stated at cost. This includes cost of construction, equipment, and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and substantially available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest cost.

All other borrowing costs are expensed as incurred.

Borrowing costs arising from interest charges and exchange differences are treated as deductible expenses for income tax reporting purposes in the period they are incurred or realized.

Asset Retirement Obligations

Pitell is legally required under various lease agreements to dismantle the installations of leased sites and restore such sites to their original condition at the end of the lease contract term. A corresponding asset is recognized in property and equipment. Dismantling and restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the dismantling and restoration liability. The unwinding of the discount is expensed as incurred and recognized in profit or loss as a finance cost. The estimated future costs of dismantling and

restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Investment Properties

Investment properties are initially measured at cost including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair values, which have been determined based on the latest valuation performed by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains and losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the period of retirement or disposal.

Transfers are made to or from investment property when, and only when, there is a change in use. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the owner-occupied property becomes an investment property, Piltel accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment property.

Investment in Associates

Piltel's investment in its associates is accounted for using the equity method of accounting and is initially recognized at cost. An associate is an entity in which Piltel has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost plus post acquisition changes in Piltel's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, Piltel recognizes its share in any changes and discloses this when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between Piltel and its associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and Piltel are identical and the associate's accounting policies conform to those used by Piltel for like transactions and events in similar circumstances.

Inventories and Supplies

Inventories, which include cellular phone units, materials, spare parts, terminal units and accessories, are stated at the lower of cost or net realizable value.

Cost is determined using weighted average cost method. Net realizable value is the current replacement cost.

Impairment of Non-Financial Assets

Piltel assesses at each reporting date whether there is an indication that the property and equipment, investment properties and deferred income tax assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, Piltel makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, Piltel makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation (in the case of property and equipment), had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charged is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and Other Financial Assets and Liabilities

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Piltel determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that Piltel commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets with the period generally established by regulation or convention in the marketplace.

Day 1 profit

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation

technique whose variables include only data from observable market, Piltel recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, Piltel determines the appropriate method of recognizing the "Day 1" profit amount.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets by recognizing gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets contain an embedded derivative that would need to be separately recorded.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case a reassessment is required. Piltel determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

As at June 30, 2008 and December 31, 2007, the Company has no financial assets classified as financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains or losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Assets in this

category are included in current assets, except for maturities longer than twelve months after the balance sheet date, which are classified under noncurrent assets.

Classified as loans and receivables are cash and cash equivalents, short-term investments, investment in debt securities and trade and other receivables.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which Piltel has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method. Gains or losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process. Assets in this category are included in current assets, except for maturities longer than twelve months after the balance sheet date, which are classified under noncurrent assets.

The Company has no held-to-maturity investments as at June 30, 2008 and December 31, 2007.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and maybe sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. They are included in noncurrent assets unless Piltel intends to dispose of the investment within twelve months from the balance sheet date. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income as "Dividends received" when the right of payment has been established.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of Financial Assets

Piltel assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

Financial assets carried at amortized cost

For loans and receivables carried at amortized cost, Piltel assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If Piltel determines that no

objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the income account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that Piltel will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in Piltel and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by Piltel to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

In case of equity investments classified as available-for-sale asset, this would include a significant or prolonged decline in the fair value of the investments below its cost.

Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest income' in the consolidated statement of income. If, in subsequent periods, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less from date of acquisition and that are subject to an insignificant risk of change in value.

Short-Term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from date of acquisition. These investments are accounted for as loans and receivables.

Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that Piltel will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. When a trade receivable is uncollectible, it is written-off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized as income in the consolidated statement of income.

Financial Liabilities

Interest-bearing financial liabilities

All loans and borrowings are initially recognized at the fair value less directly attributable transaction costs, and have not been designated as "at fair value through profit or loss". After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the

consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held-for-trading are recognized in the consolidated statement of income.

No financial liabilities have been designated as at fair value through profit or loss as at June 30, 2008 and December 31, 2007.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- Piltel retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- Piltel has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where Piltel has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of Piltel's continuing involvement in the asset. Continuing involvement that takes the form of guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Piltel could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of Piltel's continuing involvement is the amount of the transferred asset that Piltel may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of Piltel's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated balance sheet.

Provisions

Provisions are recognized when Piltel has present obligations, legal or constructive, as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where Piltel expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursements. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized as additional provisions.

Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of Philippine Interpretation of IFRIC 4.

Piltel as a lessee

Finance leases, which transfer to Piltel substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss. Total finance lease obligations as at June 30, 2008 and December 31, 2007 amounted to ₱42.5 million (*see Note 16 – Finance Lease Obligation*).

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that Piltel will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in profit or loss on a straight line basis over the lease term.

Pitel as a lessor

Leases where Pitel does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue Recognition

Revenues for services are stated at amounts invoiced to customers, excluding value-added tax (VAT) or overseas communication tax, where applicable. Pitel provides wireless and fixed line communication services. Pitel provides such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured and the delivery of the product or service has occurred. In certain circumstances, revenue is split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transactions. The value of components is determined using verifiable objective evidence. Under certain arrangements where the above criteria are met but there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and such amount is determined to be recoverable. Pitel does not provide the customers with the right to a refund.

Service revenues

Subscriptions

Pitel provides telephone and data communication services under prepaid and postpaid payment arrangements. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro rata basis.

Air time, traffic and value-added services

Prepaid service revenues collected in advance are deferred and recognized based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit, and network usage are recognized in the period the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided, net of amounts payable to other telecommunication carriers for terminating calls in their territories. Revenues related to products and value-added services are recognized upon delivery of the product or service.

Incentives

Pitel records insignificant commission expense based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction of revenue. Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Non-service revenues

Sale of cellular handsets and SIM packs are recognized upon delivery to the customer.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the effective interest rate. Interest income represents interest earned from the receivable from Smart, cash and cash equivalents, short-term investments and investment in debt securities.

Income Tax

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax is provided using the consolidated balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, any carry forward of unused tax credits from excess minimum corporate income tax, or MCIT and any unused net operating loss carryover, or NOLCO, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of excess MCIT and unused NOLCO can be utilized except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in other subsidiaries and associates, deferred tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in the statement of changes in equity and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

New Accounting Standards Subsequent to June 2008

Following are the new PFRS and Philippine Interpretations of IFRIC which will be effective subsequent to June 30, 2008:

PFRS 8, “Operating Segments”

This will be effective on January 1, 2009 and will replace *PAS 14, “Segment Reporting”*, and adopts a management approach to reporting segment information. The requirements of this standard will be included in Piltel’s unaudited consolidated financial statements when the standard is adopted.

PAS 23, “Borrowing Costs” - Revised

This will become effective for annual periods beginning on or after January 1, 2009. The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The scope of the standard has been amended and the revised standard is not required to be applied to borrowing costs directly attributable to: (1) qualifying assets measured at fair value, e.g. financial or biological assets. However, entities are not prohibited from presenting items in the income statement as when borrowing costs had been capitalized, before measuring the items at fair value; or (2) inventories that are manufactured in large quantities on a repetitive basis. The requirements of this standard will be included in Piltel’s unaudited consolidated financial statements when the standard is applied.

PAS 1, “Presentation of Financial Statements” - Revised

This will become effective for annual periods beginning on or after January 1, 2009. PAS 1 has been revised to enhance the usefulness of information presented in the unaudited consolidated financial statements. The key changes are: (1) the statement of changes in equity includes only transactions which owners and all non-owner changes are presented in equity as a single line with details included in a separate statement. Owners are defined as “holders of instruments classified as equity”; (2) the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together

with “other comprehensive income”. The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate income statement and a statement of comprehensive income; (3) amounts reclassified to profit or loss that were previously recognized in other comprehensive income (for example, previously unrealized gains on available-for-sale financial assets that are sold) must be separately disclosed, either in the statement of comprehensive income itself or in the notes; (4) entities must disclose the income tax relating to each component of other comprehensive income. This can be presented in the statement of comprehensive income itself or in the notes; (5) when an entity restates its unaudited consolidated financial statements or retrospectively applies a new accounting policy, a statement of financial position must be presented as at the beginning of the earliest comparative period; (6) dividends to equity holders can now be shown only in the statement of changes in equity or in the notes; and (7) the introduction of new terminology, replacing “consolidated balance sheet” with “statement of financial position” and “consolidated cash flow statement” with “statement of cash flows”, although the titles are not obligatory. The requirement of this standard will be included in Piltel’s unaudited consolidated financial statements when the standard is applied.

Philippine Interpretation of IFRIC 13, “Customer Loyalty Programmes”

Philippine Interpretation of IFRIC 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. Piltel expects that this Interpretation will have no impact on the Company’s unaudited consolidated financial statements as no such schemes currently exist.

Piltel expects that the adoption of the pronouncements listed above will have no significant impact on its unaudited consolidated financial statements in the period of its initial application.

3. Management’s Use of Estimates and Judgment

In preparing the unaudited consolidated financial statements under PFRS, Piltel has made its best judgements, estimates and assumptions of certain amounts, giving due consideration to materiality. Piltel believes the following represent a summary of these significant judgements, estimates and assumptions and the related impact and associated risks on the unaudited consolidated financial statements.

Judgments

In the process of applying Piltel’s accounting policies, management has made the following judgment, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the unaudited consolidated financial statements:

Operating Lease Commitments - Piltel as Lessor

Piltel has entered into leases on its investment properties. Piltel has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Determining Fair Values of Financial Assets and Liabilities

PFRS requires that Piltel carry certain financial assets and liabilities at fair value which requires extensive use of accounting estimates and judgements. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if Piltel utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly Piltel's profit and loss and equity.

Total fair values of financial assets and liabilities as at June 30, 2008 amounted to ₱20,135.0 million and ₱793.7 million, respectively; while the total fair values of financial assets and liabilities as at December 31, 2007 amounted to ₱12,487.0 million and ₱812.7 million, respectively (*see Note 21 – Financial Assets and Liabilities*).

Legal Contingencies

Piltel is currently involved in various legal and administrative proceedings. Piltel's estimate of the probable costs for the resolution of these claims has been developed in consultation with its counsel handling the defense in these matters and is based upon an analysis of potential results. Piltel currently does not believe these proceedings will have a material adverse effect on the unaudited consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings (*see Note 20 – Contingencies*).

As at June 30, 2008 and December 31, 2007, there were no provisions to cover these contingencies.

Estimates and assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Estimating Useful Lives of Property and Equipment

The useful life of each of Piltel's property and equipment asset is estimated based on the period over which the asset is expected to be available for use. The estimation of the useful life of property and equipment is also based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed at each financial year-end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful life of any property and equipment would increase the recorded expense and decrease noncurrent assets.

The carrying values of property and equipment, net of accumulated depreciation and amortization as at June 30, 2008 and December 31, 2007 amounted to ₱2,129.7 million and ₱1,559.5 million, respectively (*see Note 8 – Property and Equipment and Note 21 – Financial Assets and Liabilities*).

Impairment of Property and Equipment

PFRS requires that an impairment review be performed when certain impairment indicators are present. If any such indication exists, Piltel makes an estimate of the recoverable amount of assets such as property and equipment. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets where the carrying amount exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The preparation of the estimated future cash flows involves significant judgment and estimations. While Piltel believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect Piltel's assessment of recoverable values and may lead to future additional impairment charges under PFRS.

The carrying values of property and equipment, net of accumulated depreciation and amortization as at June 30, 2008 and December 31, 2007 amounted to ₱2,129.7 million and ₱1,559.5 million, respectively (*see Note 8 – Property and Equipment and Note 21 – Financial Assets and Liabilities*).

Investment Properties

Piltel adopted the fair value approach in determining the carrying value of its investments. While Piltel has opted to rely on independent appraisers to determine the fair value of its investment properties, such fair value was determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if Piltel made different judgments and estimates or utilized different basis for determining fair value.

Total carrying values of investment properties as at June 30, 2008 and December 31, 2007 amounted to ₱402.7 million and ₱444.7 million, respectively (*see Note 9 – Investment Properties and Note 21 – Financial Assets and Liabilities*).

Realizability of Deferred Income Tax Assets

Piltel reviews the carrying amounts at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Piltel's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on forecasted taxable income of the subsequent reporting periods. The forecast is based on past results and future expectations on revenues and expenses. However, there is no assurance that Piltel will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

Total deferred income tax assets recognized in the consolidated balance sheet amounted to ₱243.6 million and ₱1,426.6 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 5 – Income Taxes*).

Estimating Allowance for Doubtful Accounts

Piltel estimates the allowance for doubtful accounts related to its trade receivables that are specifically identified to be doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, Piltel uses judgment based on the best available facts and circumstances, including but not limited to, the length of Piltel's relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce Piltel's receivables to amounts that it expects to collect. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated.

In addition to specific allowance against individually significant receivables, Piltel also assesses a collective impairment allowance against credit exposures of its customers which were grouped based on common characteristics, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on various factors such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

There were no provision for doubtful accounts for continuing operations for the six months ended June 30, 2008 and 2007. Provision for doubtful accounts for discontinued operations for the six months ended June 30, 2008 and 2007 amounted to ₱2.8 million and ₱14.9 million, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱7,007.6 million and ₱6,312.4 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 4 – Segment Information, Note 6 – Discontinued Operations and Note 12 – Trade and Other Receivables*).

Asset Retirement Obligations

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore or dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the balance sheet date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to ₱1.3 million as at June 30, 2008 and December 31, 2007 (*see Note 21 – Financial Assets and Liabilities*).

Revenue Recognition

Piltel's revenue recognition policies require it to make use of estimates and assumptions that may affect the reported amounts of its revenues and receivables.

Piltel's agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by Piltel. Initial recognition of revenues is based on Piltel's observed traffic adjusted by its normal experience adjustments, which historically are not material in Piltel's unaudited consolidated financial statements. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

Revenues under a multiple element arrangement were split into separately identifiable components and recognized when the related components were delivered in order to reflect the substance of the transaction. The fair value of components was determined using verifiable objective evidence.

4. Segment Information

Operating segments are components of Piltel that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of Piltel), whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available. The accounting policies of the reportable segments are the same as those described in *Note 2 – Summary of Significant Accounting Policies and Practices*.

Piltel derives its revenues from the cellular and fixed line services. Most of the revenues are derived from the Philippines. The revenues derived outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

Piltel does not have geographical segments since both its cellular and fixed line businesses provide nationwide coverage, with no significant differences in rates and services among the different geographical locations in the Philippines.

The assets and liabilities as at June 30, 2008 and December 31, 2007 and results of operations and cash flows of Piltel's reportable business segments for the six months ended June 30, 2008 and 2007 are as follows:

	Cellular	Fixed Line	Total
	<i>(In Million Pesos)</i>		
As at and for the six months ended June 30, 2008 (Unaudited)			
Revenues			
Service revenues (<i>Notes 2 and 6</i>)	8,171.0	228.5	8,399.5
Interest income	343.0	–	343.0
Rent	200.6	–	200.6
Sale of cellular handsets and SIM packs	162.0	–	162.0
Other income (<i>Note 6</i>)	1.5	0.5	2.0
Total revenues	8,878.1	229.0	9,107.1
Results			
Income before income tax (<i>Notes 2 and 6</i>)	7,831.0	62.0	7,893.0
Provision for income tax (<i>Notes 2 and 5</i>)	(2,688.5)	–	(2,688.5)
Net income for the period	5,142.5	62.0	5,204.5
Assets			
Segment assets	22,946.4	–	22,946.4
Deferred income tax assets (<i>Notes 2 and 5</i>)	243.6	–	243.6
Total assets	23,190.0	–	23,190.0

	Cellular	Fixed Line	Total
	<i>(In Million Pesos)</i>		
Liabilities			
Segment liabilities	2,987.5	–	2,987.5
Other segment information			
Capital expenditures	758.3	34.8	793.1
Depreciation and amortization <i>(Note 8)</i>	211.4	19.3	230.7
Write-down of inventories to net realizable values	14.9	–	14.9
Provision for doubtful accounts <i>(Notes 3 and 6)</i>	–	2.8	2.8
Cash flows from (used in)			
Operating activities <i>(Note 6)</i>	7,601.3	(787.1)	6,814.2
Investing activities <i>(Note 6)</i>	(2,215.8)	787.1	(1,428.7)
Financing activities	(1.1)	–	(1.1)
For the six months ended June 30, 2007 (Unaudited)			
Revenues			
Service revenues <i>(Notes 2 and 6)</i>	6,719.1	305.9	7,025.0
Sale of cellular handsets and SIM packs	398.0	–	398.0
Rent	199.2	0.6	199.8
Interest income	186.0	–	186.0
Other income <i>(Note 6)</i>	42.8	0.5	43.3
Total revenues	7,545.1	307.0	7,852.1
Results			
Income (loss) before income tax <i>(Notes 2 and 6)</i>	6,293.5	(940.7)	5,352.8
Provision for income tax <i>(Notes 2 and 5)</i>	(1,796.8)	–	(1,796.8)
Net income (loss) for the period	4,496.7	(940.7)	3,556.0
Other segment information			
Capital expenditures	97.6	16.8	114.4
Depreciation and amortization <i>(Note 8)</i>	302.1	1,132.0	1,434.1
Write-down of inventories to net realizable values	0.7	–	0.7
Provision for doubtful accounts <i>(Notes 3 and 6)</i>	–	14.9	14.9
Cash flows from (used in)			
Operating activities <i>(Note 6)</i>	7,383.5	(32.2)	7,351.3
Investing activities <i>(Note 6)</i>	(7,552.8)	32.2	(7,520.6)
Financing activities	(49.1)	–	(49.1)
As at December 31, 2007 (Audited)			
Assets			
Segment assets	14,600.6	802.9	15,403.5
Deferred income tax assets <i>(Notes 2 and 5)</i>	1,426.6	–	1,426.6
Total assets	16,027.2	802.9	16,830.1

	Cellular	Fixed Line	Total
	<i>(In Million Pesos)</i>		
Liabilities			
Segment liabilities	1,831.5	0.6	1,832.1

The cellular and fixed line businesses had no inter-segment transfers of revenues nor expenses for the six months ended June 30, 2008 and 2007.

5. Income Taxes

The components of Piltel's net deferred income tax assets recognized in the consolidated balance sheets are as follows:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	<i>(In Million Pesos)</i>	
Deferred income tax assets (liabilities) on:		
Unearned revenue on sale of prepaid cards	101.9	112.6
Unearned revenue on co-location	70.4	140.7
Accumulated allowance for doubtful accounts	40.7	152.4
Investment properties	25.7	28.1
Unrealized foreign exchange gains	(0.1)	(0.9)
MCIT	-	3.3
Asset impairment	-	701.1
NOLCO	-	285.8
Others	5.0	3.5
	243.6	1,426.6

Provision for income tax consists of:

	For the six months ended June 30,	
	2008	2007
	<i>(Unaudited)</i>	
	<i>(In Million Pesos)</i>	
Current	1,505.5	-
Deferred	1,183.0	1,796.8
	2,688.5	1,796.8

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for income tax follows:

	For the six months ended June 30,	
	2008	2007
	(Unaudited)	
	(In Million Pesos)	
Provision for tax at statutory tax rate	2,762.5	1,873.5
Tax effects of:		
Permanent difference	(73.6)	(32.7)
Tax rate adjustment	(0.4)	(44.0)
Actual provision for income tax (Note 4)	2,688.5	1,796.8

As at December 31, 2007, Piltel had unutilized NOLCO of ₱816.7 million (with a corresponding tax benefit of ₱285.8 million), expiring in 2010. Piltel's NOLCO arises from the realized losses on the disposal of AMPS/CDMA assets and depreciation of impaired fixed line network assets. Piltel's NOLCO and the ₱3.3 million excess MCIT over RCIT in 2007 were fully utilized against Piltel's first quarter income tax remittance in 2008. For the second quarter, Piltel claimed additional write-off of bad debts amounting to ₱255.9 million (with a corresponding tax benefit of ₱89.6 million). This includes ₱253.0 million written-off from the allowance for doubtful accounts and the balance of ₱2.9 million written-off from the fixed line assets classified as held-for-sale. The write-offs were approved by the BOD on August 4, 2008.

6. Discontinued Operations

Fixed line assets for sale and transfer to PLDT are included in the account "Fixed line assets classified as held-for-sale" and presented under discontinued operations. These assets are the subject of the LEC Assets Sale and Purchase Agreement dated December 4, 2007 between Piltel and PLDT (see Note 18 – Related Party Transactions).

The LEC Assets Sale and Purchase Agreement, under which Piltel agrees to sell to PLDT its fixed line business, covers the exchanges being managed by PLDT and SubicTel, for a consideration of ₱802.3 million. On June 4, 2008, the NTC approved the transfer of Piltel's LEC assets to PLDT. PLDT paid a total of ₱866.9 million (including VAT and net of taxes withheld) to Piltel. Correspondingly, all the LEC assets and liabilities relating to the transfer were removed from Piltel's books.

The results of operations of Piltel's fixed line business are as follows:

	For the six months ended		For the three months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(Unaudited)			
	<i>(In Million Pesos)</i>			
Revenues (Note 4)				
Service revenues	228.5	305.9	99.0	150.3
Rent	–	0.6	–	–
Other income	0.5	0.5	0.2	0.2
	229.0	307.0	99.2	150.5
Expenses				
Maintenance	97.6	41.0	78.0	22.3
Professional and other service fees (Note 18)	35.4	42.5	14.6	21.2
Depreciation and amortization (Note 4)	19.3	1,132.0	8.0	1,091.4
Rent	8.9	8.1	3.2	3.5
Provision for doubtful accounts (Notes 3 and 4)	2.8	14.9	(0.8)	6.3
Others	3.0	9.2	1.3	2.8
	167.0	1,247.7	104.3	1,147.5
Net income (loss) from discontinued operations (Note 4)	62.0	(940.7)	(5.1)	(997.0)

The net cash flows provided by (used in) the fixed line business are as follows:

	For the six months ended June 30,	
	2008	2007
	(Unaudited)	
	<i>(In Million Pesos)</i>	
Cash flows from operating activities		
Income before income tax (Notes 4 and 7)	62.0	(940.7)
Adjustments:		
Depreciation and amortization (Note 4)	19.3	1,132.0
Provision for doubtful accounts (Notes 3 and 4)	2.8	14.9
Operating income before changes in assets and liabilities	84.1	206.2
Increase in:		
Trade and other receivables	(978.8)	(247.0)
Inventories and supplies	–	(4.3)
Prepayments	–	(9.7)
Increase in:		
Trade and other payables	107.6	22.6
Net cash used in operating activities (Note 4)	(787.1)	(32.2)

	For the six months ended June 30,	
	2008	2007
	(Unaudited)	
	(In Million Pesos)	

Cash flow from investing activities

Proceeds from sale of fixed line assets classified as held-for-sale	791.6	-
Net additions to property and equipment	(4.5)	32.2
Net cash provided by investing activities (Note 4)	787.1	32.2

There were no financing activities for the fixed line business for the six months ended June 30, 2008 and 2007.

7. Earnings Per Common Share

The following table presents information necessary to calculate earnings per common share:

	For the six months ended June 30,				For the three months ended June 30,			
	2008		2007		2008		2007	
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(In Million Pesos, Except Per Share Amounts)				(In Million Pesos, Except Per Share Amounts)			
Net income for the period	5,204.5	5,204.5	3,556.0	3,556.0	2,746.9	2,746.9	1,570.7	1,570.7
Dividends on preferred stock	(0.6)	-	(222.3)	(221.7)	(0.3)	-	(111.2)	(110.9)
Net income applicable to common stock	5,203.9	5,204.5	3,333.7	3,334.3	2,746.6	2,746.9	1,459.5	1,459.8
Net income for the period from continuing operations	5,142.5	5,142.5	4,496.7	4,496.7	2,752.0	2,752.0	2,567.7	2,567.7
Dividends on preferred stock	(0.6)	-	(222.3)	(221.7)	(0.3)	-	(111.2)	(110.9)
Net income from continuing operations applicable to common stock	5,141.9	5,142.5	4,274.4	4,275.0	2,751.7	2,752.0	2,456.5	2,456.8
Common shares at beginning of period (Note 15)	11,771.7	11,771.7	11,771.7	11,771.7	11,771.7	11,771.7	11,771.7	11,771.7
Convertible preferred shares Class I Series A, C & D	-	29.2	-	29.2	-	29.2	-	29.2
Unrestructured convertible bonds	-	-	-	11.2	-	-	-	11.2
Weighted average number of common shares	11,771.7	11,800.9	11,771.7	11,812.1	11,771.7	11,800.9	11,771.7	11,812.1
Earnings per common share	0.4421	0.4410	0.2832	0.2823	0.2334	0.2328	0.1240	0.1236
Earnings per common share from continuing operations	0.4368	0.4358	0.3631	0.3619	0.2338	0.2332	0.2087	0.2080
Net income (loss) from discontinued operations	62.0	62.0	(940.7)	(940.7)	(5.1)	(5.1)	(997.0)	(997.0)
Earnings (loss) per common share from discontinued operations	0.0053	0.0052	(0.0799)	(0.0796)	(0.0004)	(0.0004)	(0.0847)	(0.0844)

Basic EPS is calculated by dividing net income or loss for the period attributable to common shareholders (net income adjusted for dividends on all series of preferred shares, except for

dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares outstanding during the period after giving retroactive effect to any stock dividend declarations.

Diluted EPS is calculated in the same manner assuming that, at the beginning of the period or at the time of issuance during the period, convertible preferred shares are converted to common shares and appropriate adjustments to the net income are effected for the related expenses and income on preferred shares.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

When dividends declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. As such, the diluted EPS will be calculated by dividing net income attributable to common shareholders (net income, adding back any dividends and/or other charges recognized in the period related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares including the common share equivalent arising from the conversion of dilutive convertible preferred shares.

8. Property and Equipment

This account consists of:

	Land	Building and Improvements	Telecom- munications Equipment	Transportation Equipment, Furniture and Tools	Installation Materials, Parts and Supplies	Total
<i>(In Million Pesos)</i>						
At December 31, 2007 (Audited)						
Cost	74.2	317.9	2,561.1	825.9	26.2	3,805.3
Accumulated depreciation and amortization	–	(289.4)	(1,133.6)	(822.8)	–	(2,245.8)
Net book value (Note 3)	74.2	28.5	1,427.5	3.1	26.2	1,559.5
For the Period Ended June 30, 2008 (Unaudited)						
Opening net book value	74.2	28.5	1,427.5	3.1	26.2	1,559.5
Additions	–	–	788.7	3.9	0.5	793.1
Disposals/retirement:						
Cost	–	(8.0)	(4.3)	(2.0)	–	(14.3)
Accumulated depreciation and amortization	–	4.2	0.9	2.0	–	7.1
Reclassifications:						
Cost	17.2	–	22.8	–	(22.8)	17.2
Discontinued operations:						
Cost	–	(120.8)	(118.0)	(181.2)	–	(420.0)
Accumulated depreciation and amortization	–	126.3	110.3	181.2	–	417.8
Depreciation and amortization	–	(2.3)	(226.5)	(1.9)	–	(230.7)
Net book value at end of period (Note 3)	91.4	27.9	2,001.4	5.1	3.9	2,129.7
At June 30, 2008 (Unaudited)						
Cost	91.4	189.1	3,250.3	646.6	3.9	4,181.3
Accumulated depreciation and amortization	–	(161.2)	(1,248.9)	(641.5)	–	(2,051.6)
Net book value (Note 3)	91.4	27.9	2,001.4	5.1	3.9	2,129.7

Cellular Assets

Piltel has GSM assets with carrying value of ₱2,002.2 million and ₱1,447.8 million as at June 30, 2008 and December 31, 2007, respectively. The GSM network assets were purchased in connection with the Omnibus Service Agreement (OSA) between Piltel and Smart (*see Note 18 – Related Party Transactions*). Piltel also has AMPS/CDMA assets with carrying value of ₱127.5 million and ₱111.7 million as at June 30, 2008 and December 31, 2007, respectively.

Estimated Useful Lives

The useful lives of the assets are estimated as follows:

Buildings and improvements	25 years
Telecommunications equipment	5 to 10 years
Transportation equipment, furniture and tools	3 to 5 years

Release of Mortgage

Substantially all present and future property and equipment of Piltel were subject to the Mortgage Trust Indenture (MTI) dated June 4, 2001 between Piltel and JPMorgan Chase Bank, N.A. (Manila Branch) (JPMorgan) as Security Agent for the creditors under Piltel’s debt restructuring plan. The restructured obligations were fully prepaid in 2006. On April 18, 2007, Piltel received a Notice of Termination of the MTI from JPMorgan.

9. **Investment Properties**

This account consists of:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	<i>(In Million Pesos)</i>	
Beginning balance	444.7	445.9
Retirement	(42.0)	–
Loss on fair value adjustment	–	(1.2)
Ending balance	402.7	444.7

Investment properties comprise of land and buildings Piltel rents out to Smart under the Memorandum of Agreement (MOA) between the two companies in December 2003 (*see Note 18 – Related Party Transactions*). Rental income from investment properties amounted to ₱4.4 million for the six months ended June 30, 2008 and 2007. Piltel did not incur any significant expenses on these properties for the six months ended June 30, 2008 and 2007.

Investment properties are stated at fair values, which has been determined based on the latest valuations performed by an independent firm of appraisers. The valuation undertaken was based on an open market value, supported by market evidence in which assets could be exchanged between a knowledgeable willing buyer and seller in an arm’s length transaction at the date of valuation, in accordance with international valuation standards.

10. Investments and Other Noncurrent Assets

This account consists of:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
<i>(In Million Pesos)</i>		
Investment in shares of stock:		
At cost:		
ACeS Philippines Cellular Satellite Corporation	280.4	280.4
Others	20.0	20.0
	300.4	300.4
Less allowance for impairment loss	300.4	300.4
	-	-
At equity:		
Pagemart Philippines, Inc.	0.1	0.1
Total investments	0.1	0.1
Other noncurrent assets	13.7	13.8
	13.8	13.9

11. Cash and Cash Equivalents

This account consists of:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
<i>(In Million Pesos)</i>		
Cash on hand and in banks	13.8	28.4
Temporary cash investments	5,976.5	577.5
	5,990.3	605.9

Cash in banks earn interest at the prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to three months depending on the cash requirements of Piltel. Due to the short-term nature of such transactions, the carrying value approximates the fair value of the temporary cash investments.

12. Trade and Other Receivables

This account consists of receivables from:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	<i>(In Million Pesos)</i>	
Smart (Note 18)	6,818.9	6,204.6
Dealers	129.8	235.9
Others	175.1	241.1
	7,123.8	6,681.6
Allowance for doubtful accounts	(116.2)	(369.2)
	7,007.6	6,312.4

Movements in the allowance for doubtful accounts follow:

	Total	Customers	Dealers	Others
	<i>(In Million Pesos)</i>			
At June 30, 2008 (Unaudited)				
Balance at the beginning of the period	369.2	-	217.5	151.7
Write-off of receivables	(253.0)	-	(101.3)	(151.7)
Balance at the end of the period	116.2	-	116.2	-
Collective impairment	116.2	-	116.2	-
At December 31, 2007 (Audited)				
Balance at the beginning of the period	400.5	31.3	217.5	151.7
Reclassification to fixed line assets classified as held-for-sale	(31.3)	(31.3)	-	-
Balance at the end of the period	369.2	-	217.5	151.7
Collective impairment	369.2	-	217.5	151.7

13. Inventories and Supplies

This account consists of:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	<i>(In Million Pesos)</i>	
Terminal and cellular phone units:		
At net realizable value	94.1	25.2
At cost	100.0	25.8
Spare parts and supplies:		
At net realizable value	-	3.4
At cost	-	3.4
At lower of cost or net realizable value	94.1	28.6

14. Prepayments

This account consists of:

	June 30, 2008 (Unaudited)		December 31, 2007 (Audited)	
	Noncurrent	Current	Noncurrent	Current
	<i>(In Million Pesos)</i>			
Deferred input VAT	98.4	52.4	25.6	40.6
Taxes withheld	-	14.7	-	12.8
Prepayments	-	18.9	-	1.3
	98.4	86.0	25.6	54.7

15. Equity

Preferred stock and common stock consist of:

	June 30, 2008 (Unaudited)		December 31, 2007 (Audited)	
	Shares	Amount	Shares	Amount
	<i>(In Million Pesos, Except Per Share Amounts)</i>			

Preferred Stock

Class I - 10% cumulative serial preferred stock - ₱2 par value
Authorized

	120.0		120.0
Issued and outstanding			
Series A	1.9	3.8	1.9 3.8
Series C	5.2	10.4	5.2 10.4
Series D	0.1	0.2	0.1 0.2
	7.2	14.4	7.2 14.4

	June 30, 2008		December 31, 2007	
	(Unaudited)		(Audited)	
	Shares	Amount	Shares	Amount
<i>(In Million Pesos, Except Per Share Amounts)</i>				
Class II - cumulative nonconvertible serial preferred stock - ₱1 par value				
Authorized	500.0		500.0	
Common Stock - ₱1 par value				
Authorized	12,060.0		12,060.0	
Issued and outstanding <i>(Note 7)</i>	11,771.7	11,771.7	11,771.7	11,771.7
Treasury Stock	2.0	36.0	2.0	36.0

Equity Restructuring

On March 5, 2007, Piltel's BOD authorized the Company to undergo equity restructuring to eliminate the deficit as at December 31, 2006 amounting to ₱22,250.5 million against the additional paid-in capital. The equity restructuring was approved by the Securities and Exchange Commission (SEC) on April 20, 2007.

Preferred Stock

Piltel's preferred stock consists of Class I and Class II preferred shares. The preferred shares are redeemable and carry no voting rights apart from those specifically granted by law. Class I preferred shares have preference over the common shares as to dividend and assets in the event of liquidation, dissolution or winding up.

There are currently three series of Class I preferred shares issued and outstanding, namely: Series A, Series C, and Series D. The Class I preferred shares issued as Series A are entitled to an annual cash dividend of up to ₱124,600; those issued as Series C and Series D shares are entitled to annual cash dividend of 10 percent of the par value. Series A, C and D shares are convertible into common shares of Piltel.

As part of Piltel's drawings under the Letter of Support, PLDT subscribed to a total of 4,927,093 Series J preferred shares of Piltel at a subscription price of ₱1,000 per share. Piltel may, beginning on the day following the earlier of (i) the fifteenth anniversary of the date of issue of the Series J preferred shares; or (ii) the full repayment of the restructured indebtedness of Piltel under the Master Restructuring Agreement, redeem all or a portion of the outstanding Series J preferred shares pro-rata, at issue value plus any accrued and unpaid dividends.

On December 5, 2007, Piltel redeemed its Series J preferred shares at the issue price of ₱1,000 per share for a total amount of ₱4,927.1 million. The redemption was approved by Piltel's BOD on November 5, 2007.

The excess of the redemption price over the par value of the preferred shares was accounted for as a charge against retained earnings since the remaining additional paid-in capital after the equity restructuring in April 2007 shall not be used to wipe out losses that may be incurred in the future without prior approval of the Securities and Exchange Commission (SEC). Moreover, based on the BOD resolutions creating the Series J Preferred Shares (Paragraph F thereof), redeemable

preferred shares so redeemed by the Company will be cancelled and revert to the status of authorized but unissued shares of Class I Preferred Stock.

Common Stock

On September 20, 1996, the SEC approved the registration of 145,828,349 common shares to provide for the future conversion of Class I preferred stock into common stock and the conversion of 1.75 percent convertible bonds into Piltel’s common stock. As at June 30, 2008, 43,640 shares of Class I Series C preferred stock have been approved for conversion to common stock.

On March 30, 2007, Piltel paid the remaining convertible bonds including accrued interest. As at June 30, 2008 and December 31, 2007, there are no more outstanding bonds convertible into common stock.

Dividends Declared

In 2007, Piltel’s BOD declared cash dividends on the following series of Class I preferred shares:

Series	Holders	BOD Approval Date		Payment Date		Amount of Dividends	
		In Arrears	Current	In Arrears	Current	In Arrears	Current
J	PLDT	08/06/07	08/06/07	09/03/07	09/03/07	₱2,589,338,700	₱145,064,520
		-	11/05/07	-	12/05/07	-	195,875,936
C	Various	08/06/07	12/03/07	09/17/07	01/25/08	10,457,680	1,045,768
D	City of Olongapo	08/06/07	12/03/07	09/17/07	01/25/08	150,000	15,000
A	City of Baguio	08/06/07	12/03/07	under offset arrangement*		1,246,000	124,600
						<u>₱2,601,192,380</u>	<u>₱342,125,824</u>

* Based on an agreement between Piltel and the City of Baguio dated November 11, 2005, whereby the parties agreed to offset dividends against telephone bills.

On August 4, 2008, Piltel declared an interim cash dividend of ₱0.43 per share of common stock to holders of record as of August 15, 2008, payable on September 12, 2008.

16. Finance Lease Obligation

Piltel entered into an agreement for the finance lease of the Palawan Telecommunications System of the Municipal Telephone Public Office (MTPO) with the Department of Transportation and Communication (DOTC) on June 3, 1994. The MTPO Contract is a 30-year contract for Piltel to lease facilities for public call office (PCO) stations in the Palawan area, with revenues going to Piltel. In consideration, Piltel pays the DOTC an escalating annual lease fee. The financial lease is the subject of assessment by the DOTC (*see Note 20 – Contingencies*).

17. Trade and Other Payables

This account consists of:

	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	<i>(In Million Pesos)</i>	
Accounts payable (<i>Notes 18 and 19</i>)	540.7	441.6
Accruals for:		
Selling and promotions	311.2	384.0
Taxes, licenses and fees	137.8	74.4
Rent, utilities and maintenance	93.1	93.4
Interest on financial liabilities (<i>Note 16</i>)	14.8	12.5
Others	76.8	54.8
	1,174.4	1,060.7

18. Related Party Transactions

In the ordinary course of business, Piltel has transactions with PLDT, Smart and other related parties. Description of major transactions follows:

Agreements between Piltel and Smart

- a. In December 2004, Piltel and Smart entered into an OSA, which covers in one agreement all of the following: (i) Piltel's use of Smart's existing GSM network and facilities; (ii) Smart's management, operations and maintenance of Piltel's cellular mobile telephone system; (iii) Smart's management of Piltel's CMTS customer service operations; and (iv) Smart's provision of administrative support and services in certain aspects of Piltel's CMTS business operations. The OSA also defined a single revenue sharing arrangement for both parties - Piltel's net revenues will be shared between Piltel and Smart at the rate of 80/20, in favor of Piltel, effective January 1, 2004 up to December 31, 2004. Piltel's net revenues will consist of: (1) actual usage of the network of Smart by Talk 'N Text subscribers and any unused peso value of expired cards or electronic airtime loads, net of VAT and content provider costs in relation to VAS; and (2) revenues from incoming calls and messages to Talk 'N Text subscribers, net of interconnection expenses.

Under the OSA, Piltel and Smart agreed that they will, from time to time, discuss the possible allocation of capital expenditure obligation, which may arise as a result of the provision of the GSM services. As at June 30, 2008, the carrying value of GSM network assets purchased by Piltel under the OSA amounted to ₱2,002.2 million.

An amendment to the OSA was entered into by Piltel with Smart also in December 2004. The amendment covers the period effective January 1, 2005 and onwards, and amended the revenue sharing arrangement between the two companies for the said extended period. Both parties agreed that the 80/20 rate provided in the OSA will be adjusted upwards if Piltel meets the gross annual GSM subscriber revenue targets set for a given year.

On February 1, 2008, Piltel and Smart entered into a MOA to supplement the existing OSA between the parties. The MOA sets forth further the conditions for Piltel's use of the Smart system and facilities to enable Piltel to offer cellular service to its subscribers. Compensation for services to be rendered by Smart to Piltel will be based on a tiered revenue sharing arrangement, which will range from 20%-80% in favor of Smart to 83%-17% in favor of Piltel, depending on Piltel's annual GSM service revenues. At Piltel's present level of revenues, the revenue-sharing arrangement will remain at 80%-20% in its favor. Smart may revise the rate of compensation to ensure a reasonable return on its investment, in case Piltel fails to attain its projected traffic growth and revenue targets, given that Smart may incur certain capital expenditures based on Piltel's projections. The MOA covers the period from February 1, 2008 until February 1, 2010 and will be automatically renewed every six months thereafter until terminated by either party.

Smart's share in Piltel's GSM net revenues under the foregoing agreements amounted to ₱2,473.9 million and ₱1,889.8 million for the six months ended June 30, 2008 and 2007, respectively.

- b. In February 2000, Piltel entered into a MOA with Smart, whereby one party can co-locate its base transceiver stations (BTS) on the existing BTS site of the other party subject to certain terms and conditions. The monthly fee for co-location for each BTS site is ₱45,000, subject to an annual increase of 10 percent. This agreement is renewable every year unless terminated by either party.

In December 2003, Piltel entered into a MOA with Smart whereby Smart advanced the payment for the co-location fees for certain land, building and transmission facilities for the period January 1, 2004 up to December 31, 2008. Total advance payment amounted to ₱782.9 million.

In December 2004, Smart paid additional co-location fees for the period January 1, 2004 up to December 31, 2008 amounting to ₱1,227.5 million as a result of a review made by an external professional telecommunications consultant of the existing financial agreements regarding the co-location fees for the use by Smart of Piltel's transmission facilities.

Co-location income under this agreement amounted to ₱201.1 million for the six months ended June 30, 2008 and 2007. As at June 30, 2008 and December 31, 2007, the unamortized balance of the unearned co-location fees was ₱201.0 million and ₱402.1 million, respectively. The balance is presented as "Unearned revenue on co-location" under liabilities in the consolidated balance sheet.

- c. In November 2001, Piltel entered into a Billing Service Agreement with Smart for the printing and delivery of the billing statements of Piltel's LEC subscribers. Under the agreement, Piltel agrees to pay Smart an average of ₱4.60 per bill printed and an average of ₱5.40 per bill delivered. Total fees under this agreement amounted to ₱1.8 million for the six months ended June 30, 2008 and 2007.
- d. In May 2005, Piltel entered into a MOA with Smart, under which both parties agree to pay the other monthly interest charge on net liability based on the 91-day Treasury bill rate plus one percent. Interest income on Piltel's net receivable from Smart amounted to ₱136.8 million and ₱87.1 million for the six months ended June 30, 2008 and 2007, respectively.

Outstanding receivable from Smart arising from the agreements without the prepayment agreement amounted to ₱6,818.9 million and ₱6,204.6 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 12 – Trade and Other Receivables*).

Agreements between Piltel and PLDT

On July 19, 2001, Piltel entered into a Facilities Management Agreement (FMA) with PLDT under which PLDT undertakes the management, operation and maintenance of Piltel's regional telecommunication and E.O. 109 network operations and services, including E.O. 109 fixed line build out installations, public calling offices, and payphone facilities and the systems required to support these services.

The agreement covers Piltel's RTS in Baguio, Puerto Princesa, Masbate, and Boac and E.O. 109 service in Alabel, Banga, Dapitan, Davao, Digos, Dipolog, General Santos, Kiamba, Koronadal, Pagadian, Polomolok and Surallah.

Under the agreement, PLDT also undertakes the management of the computer system, billing, revenue assurance and inter-carrier settlements reporting of Piltel's regional telecommunication service in Olongapo and Subic.

The monthly management fee payable by Piltel is based on cost and for cost components where margin is allowed, 15 percent will be applied. All third party invoices will be passed on to Piltel at cost, including VAT.

The agreement, effective for three years until July 2004, was extended for three months until October 20, 2004. The agreement shall be automatically renewed at the end of every renewal quarter for another three-month period under the same terms and conditions.

Total management fees under these agreements amounted to ₱21.8 million and ₱26.2 million for the six months ended June 30, 2008 and 2007, respectively.

Outstanding liability to PLDT amounted to ₱57.2 million and ₱5.7 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 17 – Trade and Other Payables*).

On June 4, 2008, the NTC approved the transfer of Piltel's LEC assets to PLDT (*see Note 6 – Discontinued Operations*).

Agreement between Piltel and SubicTel

On September 5, 2001, Piltel and SubicTel, a subsidiary of PLDT, entered into a FMA covering the regional telephone network, customer operations, network operations and payphones of Piltel in Subic and Olongapo City. The monthly management fee payable by Piltel is based on cost and for cost components where margin is allowed, 15 percent will be applied. In addition, Piltel will pay a monthly variable cost per account in the amount of ₱44.00 for repairs and maintenance and ₱6.00 for bill delivery from an exchange to a subscriber.

The agreement, effective for three years until July 2004, was extended on July 28, 2004 for three months until October 2, 2004. The agreement shall be automatically renewed at the end of every renewal quarter for another three-month period under the same terms and conditions.

Total management fees under this agreement amounted to ₱9.4 million and ₱10.6 million for the six months ended June 30, 2008 and 2007, respectively.

Outstanding liability to SubicTel amounted to ₱1.2 million and ₱5.8 million as at June 30, 2008 and December 31, 2007, respectively (*see Note 17 – Trade and Other Payables*).

Pursuant to the transfer of the LEC business to PLDT, the FMAs with SubicTel and PLDT, as well as the Billing Service Agreement with Smart were all terminated.

Compensation of Key Management Personnel of the Company

None of the officers received compensation from Piltel for the six months ended June 30, 2008 and 2007. Piltel’s directors do not receive compensation from Piltel, except for a per diem of ₱15,000 for each BOD meeting attended by a director.

19. Contractual Obligations

The following table summarizes the maturity profile of Piltel’s undiscounted financial liabilities as at June 30, 2008 and December 31, 2007:

	June 30, 2008 (Unaudited)			December 31, 2007 (Audited)		
	On demand	Less than three months	Total	On demand	Less than three months	Total
	<i>(In Million Pesos)</i>					
Finance lease (<i>Notes 16 and 20</i>)	42.5	–	42.5	42.5	–	42.5
Unconditional purchase obligation	81.7	–	81.7	28.7	–	28.7
Various trade and other obligations:						
Suppliers and contractors	179.0	–	179.0	166.0	–	166.0
Carriers	16.7	–	16.7	16.7	–	16.7
Related parties	59.7	–	59.7	16.1	–	16.1
Dividends payable	–	5.5	5.5	–	6.5	6.5
Others	–	–	–	26.9	–	26.9
Accrued expenses:						
Selling and promotions	311.2	–	311.2	384.0	–	384.0
Rent, utilities and maintenance	93.1	–	93.1	93.2	–	93.2
Interest on financial liabilities	14.8	–	14.8	12.5	–	12.5
Others	71.2	–	71.2	48.3	–	48.3
Total financial liabilities	869.9	5.5	875.4	834.9	6.5	841.4

20. Contingencies

Except as disclosed in the following paragraphs, the Company is not a party to, and no property of the Company is subject to, any other pending material legal proceedings.

a. Bureau of Internal Revenue (BIR) Assessments

On January 27, 2006, Piltel received a favorable recommendation and approval from the BIR on its application for compromise settlement of its deficiency tax assessments arising from taxable years 1998, 1999 and 2001. On January 31, 2006, Piltel settled the total amount of ₱113.9 million, which is equivalent to 40 percent of the basic taxes per final assessment notices received, to effect immediate cancellation of the tax assessments. On February 24, 2006, the BIR accepted Piltel’s application for compromise settlement of the MCIT and VAT for the years 1998 and 1999 and income tax and VAT for the year 2001, and accordingly, issued a Certificate of Availment on the said date.

Piltel availed of the BIR's Enhanced Voluntary Assessment Program (EVAP), which grants taxpayers, who availed themselves of the program and are qualified, the privilege of the last priority in BIR audit and investigation. The EVAP applies to all internal revenue taxes covering the taxable year ending December 31, 2004 and all prior years, including one-time transactions such as estate tax, donor's tax, capital gains tax, expanded withholding tax and documentary stamp tax on the transfer, sale, exchange, or disposition of assets, and shall likewise cover taxpayers enjoying preferential tax treatment. A taxpayer who has availed of the EVAP and is qualified to avail shall not be audited except upon prior authorization and approval of the Commissioner of Internal Revenue when there is strong evidence or finding of understatement in the payment of a taxpayer's correct tax liability by more than 30% as supported by a written report of the appropriate office stating in detail the facts and the law on which such finding is based. The EVAP payments shall be allowed as tax credit against deficiency taxes in case tax audit is conducted and deficiency taxes have been assessed. Piltel availed of the EVAP and paid ₱3.0 million for income tax for taxable year 2003 and withholding tax for taxable years 2003 and 2004. In June 2008, the BIR issued, in favor of Piltel, the Certificate of Qualification for the Privilege of Last Priority in Audit covering all of Piltel's EVAP availments.

b. Finance Lease

Piltel has an existing finance lease agreement for the Palawan Telecommunications System of the MTPO with the DOTC (*see Note 16 – Finance Lease Obligation*). Presently, the eighteen (18) PCO stations that were put up pursuant to the MTPO Contract are no longer working. The last payment by Piltel to the DOTC was in July 2000 and no payments have been made since.

Piltel made several attempts to pre-terminate the MTPO Contract in letters to the DOTC where Piltel also manifested its willingness to discuss mutually beneficial compromise agreements for the pre-termination.

The DOTC denied Piltel's petition and reiterated a provision in the MTPO Contract that the pre-termination will result in the imposition of sanctions in the form of liquidated damages not exceeding ₱23.0 million.

Piltel continues to receive Statements of Account from the DOTC, the latest of which is dated June 12, 2008, alleging an unpaid amount of ₱23.3 million as of May 31, 2008. Piltel maintains that it had pre-terminated the MTPO Contract as early as 2003, and that the issue of Piltel's pre-termination of the MTPO Contract be referred for arbitration in accordance with the provisions of the MTPO Contract, specifically in Section 9.5, the provision on Arbitration.

c. Others

Piltel is also involved in certain other legal actions and claims arising in the ordinary course of its business.

Piltel's management believes that, based on the opinion of its legal counsel, the ultimate disposition of the above matters will not have any material adverse effect on the Company's operations or its financial condition taken as a whole.

21. Financial Assets and Liabilities

With the full prepayment of Piltel's restructured debts in December 2006 and the payment of the remaining convertible bonds in March 2007, Piltel's principal financial liabilities now comprise trade payables and the finance lease. The main purpose of these financial liabilities is to fund Piltel's operations. Piltel has various other financial assets such as cash and cash equivalents and other short-term investments and trade receivables, which arise directly from its operations.

It is, and has been throughout the period under review, Piltel's policy that no trading in financial instruments shall be taken.

The following tables summarize the categories for Piltel's financial assets and liabilities as at June 30, 2008 and December 31, 2007:

	Loans and receivables	Available- for-sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non- financial assets and liabilities	Total
<i>(In Million Pesos)</i>						
At June 30, 2008 (Unaudited)						
Assets						
Property and equipment - net	-	-	-	-	2,129.7	2,129.7
Investment properties	-	-	-	-	402.7	402.7
Deferred income tax assets - net	-	-	-	-	243.6	243.6
Prepayments - net of current portion	-	-	-	-	98.4	98.4
Investments and other noncurrent assets	-	13.3	-	13.3	0.5	13.8
Cash and cash equivalents	5,990.3	-	-	5,990.3	-	5,990.3
Short-term investments	6,585.3	-	-	6,585.3	-	6,585.3
Investment in debt securities	538.5	-	-	538.5	-	538.5
Trade and other receivables – net	7,007.6	-	-	7,007.6	-	7,007.6
Inventories and supplies	-	-	-	-	94.1	94.1
Prepayments	-	-	-	-	86.0	86.0
Total assets	20,121.7	13.3	-	20,135.0	3,055.0	23,190.0
Liabilities						
Asset retirement obligations	-	-	-	-	1.3	1.3
Accounts payable	-	-	255.4	255.4	285.3	540.7
Accrued expenses and other current liabilities	-	-	490.3	490.3	137.9	628.2
Unearned revenue on co-location	-	-	-	-	201.0	201.0
Unearned revenue on sale of prepaid cards	-	-	-	-	291.1	291.1
Finance lease obligation	-	-	42.5	42.5	-	42.5
Dividends payable	-	-	5.5	5.5	-	5.5
Income tax payable	-	-	-	-	1,277.2	1,277.2
Total liabilities	-	-	793.7	793.7	2,193.8	2,987.5
Net assets and liabilities	20,121.7	13.3	(793.7)	19,341.3	861.2	20,202.5

	Loans and receivables	Available- for-sale financial assets	Liabilities carried at amortized cost	Total financial assets and liabilities	Non- financial assets and liabilities	Total
<i>(In Million Pesos)</i>						
At December 31, 2007 (Audited)						
Assets						
Property and equipment - net	-	-	-	-	1,559.5	1,559.5
Investment properties	-	-	-	-	444.7	444.7
Deferred income tax assets - net	-	-	-	-	1,426.6	1,426.6
Prepayments - net of current portion	-	-	-	-	25.6	25.6
Investments and other noncurrent assets	-	13.4	-	13.4	0.5	13.9
Cash and cash equivalents	605.9	-	-	605.9	-	605.9
Short-term investments	5,555.3	-	-	5,555.3	-	5,555.3
Trade and other receivables - net	6,312.4	-	-	6,312.4	-	6,312.4
Inventories and supplies	-	-	-	-	28.6	28.6
Prepayments	-	-	-	-	54.7	54.7
Fixed line assets classified as held-for-sale	-	-	-	-	802.9	802.9
Total assets	12,473.6	13.4	-	12,487.0	4,343.1	16,830.1
Liabilities						
Asset retirement obligations	-	-	-	-	1.3	1.3
Accounts payable	-	-	225.7	225.7	215.9	441.6
Accrued expenses and other current liabilities	-	-	538.0	538.0	74.6	612.6
Unearned revenue on co-location	-	-	-	-	402.1	402.1
Unearned revenue on sale of prepaid cards	-	-	-	-	321.6	321.6
Finance lease obligation	-	-	42.5	42.5	-	42.5
Dividends payable	-	-	6.5	6.5	-	6.5
Income tax payable	-	-	-	-	3.3	3.3
Liabilities directly associated with assets classified as held-for-sale	-	-	-	-	0.6	0.6
Total liabilities	-	-	812.7	812.7	1,019.4	1,832.1
Net assets and liabilities	12,473.6	13.4	(812.7)	11,674.3	3,323.7	14,998.0

The carrying values and the estimated fair values of the financial assets and liabilities as at June 30, 2008 and December 31, 2007 are as follows:

	Carrying Values		Fair Values	
	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
<i>(In Million Pesos)</i>				
Noncurrent financial assets:				
Investments and other noncurrent assets	13.3	13.4	13.3	13.4
Total noncurrent financial assets	13.3	13.4	13.3	13.4
Current financial assets:				
Cash and cash equivalents				
Cash on hand and in banks	13.8	28.4	13.8	28.4
Temporary cash investments	5,976.5	577.5	5,976.5	577.5
Short-term cash investments	6,585.3	5,555.3	6,585.3	5,555.3
Investment in debt securities	538.5	-	538.5	-
Trade and other receivables				
Due from affiliates	6,849.6	6,233.9	6,849.6	6,233.9
Dealers, agents and others	158.0	78.5	158.0	78.5
Total current financial assets	20,121.7	12,473.6	20,121.7	12,473.6
Total financial assets	20,135.0	12,487.0	20,135.0	12,487.0
Current financial liabilities:				
Accounts payable				
Domestic carriers	16.7	16.7	16.7	16.7
Suppliers and contractors	179.0	166.0	179.0	166.0
Others	59.7	43.0	59.7	43.0
Accrued and other current liabilities				
Selling and promotions	311.2	384.0	311.2	384.0
Rent, utilities and maintenance	93.1	93.2	93.1	93.2
Interest on financial liabilities	14.8	12.5	14.8	12.5
Others	71.2	48.3	71.2	48.3
Finance lease obligation	42.5	42.5	42.5	42.5
Dividends payable	5.5	6.5	5.5	6.5
Total current financial liabilities	793.7	812.7	793.7	812.7
Total financial liabilities	793.7	812.7	793.7	812.7

There are no material unrecognized financial assets and liabilities as at June 30, 2008 and December 31, 2007.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents and short-term investments: The carrying amount reported in the consolidated balance sheets approximates fair value due to the short-term nature of the transactions.

Trade and other receivables: The net carrying value represents the fair value due to the short-term maturities of these receivables.

Trade and other payables: The carrying value reported in the consolidated balance sheets approximates the fair value due to the short-term maturities of these liabilities.

Financial Risk Management Objectives and Policies

Pursuant to the OSA (*see Note 18 – Related Party Transactions*), Piltel's financial risk management is being handled by Smart. The main risks arising from Piltel's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit Risk

Credit risk is the risk that Piltel will incur a loss arising from its customers, clients or counterparties that fail to discharge their contractual obligations. Piltel manages and controls credit risk by setting limits on the amount of risk Piltel is willing to accept for individual counterparties and by monitoring expenses in relation to such limits.

Piltel trades only with recognized, creditworthy third parties. It is Piltel's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Piltel's exposure to bad debts is not significant.

The largest component of trade and other receivables is Piltel's net receivable from Smart of ₱6,818.9 million and ₱6,204.6 million as at June 30, 2008 and December 31, 2007, respectively, comprising mainly of Piltel's share in the sale of electronic load. Piltel and Smart have not agreed on a credit term nor a cap on receivable balances, however, Piltel charges Smart interest, equivalent to 91-day T-bill+1%, on its outstanding receivable based on a MOA between the two parties (*see Note 12 – Trade and Other Receivables and Note 18 – Related Party Transactions*). Over the years, regular settlement between the parties has been established. Moreover, Piltel has been able to collect its receivable from Smart to fund not just its operating requirements but its financing requirements, such as the debt prepayment in 2006, the payment of dividends on preferred shares and the redemption in 2007 of the Series J preferred shares held by PLDT.

There is no significant concentration of credit risk within Piltel as Piltel's main business is prepaid GSM service.

With respect to credit risk arising from other financial assets, which comprise cash and cash equivalents, the exposure to credit risk arises from default of the counterparty, with a maximum exposure to the carrying amount of these instruments.

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheets:

	Gross Maximum Exposure		Net Maximum Exposure ⁽¹⁾	
	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
<i>(In Million Pesos)</i>				
Cash and cash equivalents				
Cash on hand and in banks	13.8	28.4	11.1	24.7
Temporary cash investments	5,976.5	577.5	5,976.0	577.0
Short-term investments	6,585.3	5,555.3	6,585.1	5,555.3
Investment in debt securities	538.5	–	538.5	–
Trade and other receivables				
Due from affiliates	6,849.6	6,233.9	6,849.6	6,233.9
Dealers, agents and others	158.0	78.5	158.0	78.5
Investments available-for-sale	13.3	13.4	13.3	13.4
Total	20,135.0	12,487.0	20,131.6	12,482.8

(1) Gross financial assets after taking into account insurance on bank deposits.

The table below provides information regarding the credit quality by class of Piltel's financial assets according to Piltel's credit ratings of counterparties:

	Total	Neither past due nor impaired		Impaired
		Class A ⁽¹⁾	Class B ⁽²⁾	
<i>(In Million Pesos)</i>				
At June 30, 2008 (Unaudited)				
Cash and cash equivalents				
Cash on hand and in banks	13.8	12.6	1.2	–
Temporary cash investments	5,976.5	5,976.5	–	–
Short-term investments	6,585.3	6,372.6	212.7	–
Investment in debt securities	538.5	538.5	–	–
Trade and other receivables				
Due from affiliates	6,849.6	6,849.6	–	–
Dealers, agents and others	274.2	158.0	–	116.2
Investments available-for-sale	13.3	6.6	6.7	–
Total	20,251.2	19,914.4	220.6	116.2
At December 31, 2007 (Audited)				
Cash and cash equivalents				
Cash on hand and in banks	28.4	25.8	2.6	–
Temporary cash investments	577.5	–	577.5	–
Short-term investments	5,555.3	3,577.0	1,978.3	–
Trade and other receivables				
Due from affiliates	6,233.9	6,233.9	–	–
Dealers, agents and others	447.7	59.0	–	388.7
Investments available-for-sale	13.4	13.4	–	–
Total	12,856.2	9,909.1	2,558.4	388.7

(1) This includes low risk and good paying customer accounts with no history of account treatment for a defined period and no overdue accounts as at report date; and deposits or placements to counterparties with good credit rating or bank standing financial review.

(2) This includes medium risk and average paying customer accounts with no overdue accounts as at report date, and new customer accounts for which sufficient credit history has not been established; and deposits or placements to counterparties not classified as Class A.

Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

Individually assessed allowance

Pitel determines the allowance appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral, if any, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with Pitel's policy.

Liquidity Risk

Pitel's liquidity profile is managed to be able to finance its operations and capital expenditures and other financial obligations. To cover its financing requirements, Pitel uses internally-generated funds. Any excess funds are primarily invested in short-dated and principal-protected bank products that provide flexibility of withdrawing the funds anytime. Pitel regularly evaluates available financial products and monitors market conditions for opportunities to enhance yields at acceptable risk levels.

Pitel's current liabilities are mostly made up of trade liabilities with 30-day to 60-day payment terms. On the other hand, the biggest components of Pitel's current assets are receivable from affiliates and receivable from dealers with credit terms of less than one month.

As at June 30, 2008 and December 31, 2007, Pitel's current assets amounted to ₱20,301.8 million and ₱13,359.8 million, respectively, while current liabilities are at ₱2,986.2 million and ₱1,830.8 million, respectively.

Pitel's operations is not significantly affected by inflation and changing prices.

Interest Rate Risk

With the full prepayment of Piltel's restructured debts on December 4, 2006, the Company's interest rate risk is minimal.

Foreign Exchange Risk

Piltel has recognized in its consolidated statements of income foreign exchange loss of ₱2.2 million on the revaluation of its US dollar trade accounts payable and foreign exchange gain of ₱10.4 million on its remaining restructured debts for the six months ended June 30, 2008 and 2007, respectively.

Piltel no longer has any significant foreign exchange risk as it paid-off all of its foreign currency-denominated loans.

Capital Management

Piltel's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Since its return to profitability in 2004, Piltel has embarked on various capital management initiatives to strengthen its consolidated balance sheet. Piltel has successfully repaid substantially all of its interest-bearing debt. Piltel also went through an equity restructuring to eliminate deficit against additional paid-in capital, and thus, was able to pay accumulated dividends to its preferred shareholders and redeem its high interest-bearing preferred shares.

Piltel expects to declare dividends to its common shareholders as soon as its retained earnings balance reaches an optimal level.

22. Note to Statements of Cash Flows

Piltel had no material non-cash investing nor financing activity-related transactions for the six months ended June 30, 2008 and 2007 (Unaudited).

SUPPLEMENTARY SCHEDULE

PILIPINO TELEPHONE CORPORATION
Aging of Accounts Receivable
June 30, 2008 (Unaudited)

Type of Accounts Receivable	Total	Current	30-59 Days	60-89 Days	90-119 Days	120 days and over
I. Trade Receivables						
Dealers	P 129.8	P -	P -	P -	P -	P 129.8
Due From Smart	6,818.9	6,818.9	-	-	-	-
Total Trade Receivables	P 6,948.7	P 6,818.9	P -	P -	P -	P 129.8
II. Non-Trade Receivables						
Other Receivables	P 175.1	P 158.4	P -	P -	P -	P 16.7
Total Accounts Receivable (gross)	P 7,123.8	P 6,977.3	P -	P -	P -	P 146.5
Less: Allowance for doubtful accounts (net of VAT)						
Dealers	116.2					116.2
Total Allowance for D/A	116.2	-	-	-	-	116.2
Net Receivables	P 7,007.6	P 6,977.3	P -	P -	P -	P 30.3