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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)

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Company Telephone Number

SEC FORM 17-Q				Last Tuesday of June							
1	2	3	1	(As at June 30, 2009)				0	6	3	0
Month		Day		FORM TYPE				Month		Day	
Fiscal Year								Annual Meeting			

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

23,596 common stockholders as at June 30, 2009 Total No. of Stockholders	Total Amount of Borrowings	
	N.A. Domestic	N.A. Foreign

To be accomplished by SEC Personnel concerned

File Number

Document I.D.

STAMPS

LCU

Cashier

PILIPINO TELEPHONE CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the six months ended June 30, 2009

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 U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of ₱48.158 to US\$1, the volume weighted average exchange rate as at June 30, 2009 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, 2009</u>	<u>December 31, 2008</u>	<u>Increase (Decrease)</u>	
	<u>(Unaudited)</u>	<u>(Audited)</u>	<u>Amount</u>	<u>%</u>
Consolidated Statements of Financial Position				
Total assets	24,404.8	24,044.3	360.5	1.5
<i>Property and equipment - net</i>	1,909.3	2,071.5	(162.2)	(7.8)
<i>Cash and cash equivalents and short-term investments</i>	10,058.8	10,908.9	(850.1)	(7.8)
<i>Investment in debt securities</i>	2,321.9	1,655.7	666.2	40.2
<i>Trade and other receivables</i>	9,373.8	8,642.3	731.5	8.5
Total liabilities	2,811.6	3,071.2	(259.6)	(8.5)
Total equity	21,593.2	20,973.1	620.1	3.0
	<u>Six months ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
	<u>(Unaudited)</u>			
Consolidated Statements of Income				
Revenues	8,736.0	8,333.0	403.0	4.8
Expenses	1,189.5	1,042.9	146.6	14.1
	7,546.5	7,290.1	256.4	3.5
Other income - net	1,154.4	540.9	613.5	113.4
Income before income tax	8,700.9	7,831.0	869.9	11.1
Provision for income tax	1,706.6	2,688.5	(981.9)	(36.5)
Net income from continuing operations ¹	6,994.3	5,142.5	1,851.8	36.0
Net income from discontinued operations ²	-	62.0	(62.0)	(100.0)
Net income for the period	6,994.3	5,204.5	1,789.8	34.4
Earnings Per Common Share				
From continuing operations	0.5980	0.4368	0.1612	36.9
From discontinued operations	-	0.0053	(0.0053)	(100.0)
Total	0.5980	0.4421	0.1559	35.3
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	5,884.6	6,814.2	(929.6)	(13.6)
Net cash provided (used in) investing activities	4,504.8	(1,428.7)	5,933.5	415.3
<i>Capital expenditures</i>	22.4	793.1	(770.7)	(97.2)
Net cash used in financing activities	6,371.4	1.1	6,370.3	579,118.2
	<u>June 30, 2009</u>	<u>June 30, 2008</u>		
Operational Data				
Number of cellular subscribers	16,584,562	12,482,937	4,101,625	32.9
Peso to US\$ Foreign Exchange Rates	48.158	44.896		

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

² Net income from discontinued operations pertains to the fixed line business sold and transferred to PLDT after the NTC approval on June 4, 2008.

Overview

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. *Talk 'N Text* is the second largest cellular brand in the Philippines with 16,584,562 subscribers as at June 30, 2009.

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. 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 until 2008. Effective January 1, 2009 until December 31, 2010, the revenue sharing ratio is at 70%-30% still in favor of Piltel (see Related Party Transactions). 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.

Results of Operations

Piltel's total revenues increased by 4.8 percent to ₱8,736.0 million for the six months ended June 30, 2009 from ₱8,333.0 million for the same period last year, fueled by the increase in the *Talk 'N Text* subscriber base. Piltel added 2,276,069 *Talk 'N Text* subscribers for the six months ended June 30, 2009, to reach a total of 16,584,562 subscribers.

Expenses increased by 14.1 percent to ₱1,189.5 million for the six months ended June 30, 2009 from ₱1,042.9 million for the same period last year mainly due to the increase in professional and other service fees, selling and promotions expense, taxes and licenses and maintenance. The rest of the expense items decreased from last year's levels.

Piltel's income before income tax was up 11.1 percent to ₱8,700.9 million for the six months ended June 30, 2009 from ₱7,831.0 million in the same period in 2008. However, provision for income tax decreased by ₱981.9 million to ₱1,706.6 million for the six months ended June 30, 2009 from ₱2,688.5 million for the same period in 2008 mainly because of the reduction in corporate income tax rate from 35.0 percent to 30.0 percent effective January 2009. Moreover, Piltel elected to use the optional standard deduction (OSD) method in computing its net taxable income.

Net income from continuing operations increased by 36.0 percent to ₱6,994.3 million for the six months ended June 30, 2009 from ₱5,142.5 million for the same period in 2008 due to the increase in revenues and other income.

Net income from discontinued operations for the six months ended June 30, 2008 was ₱62.0 million. On June 4, 2008, the NTC approved the transfer of the fixed line business to PLDT. Piltel's fixed line business has since been transferred to PLDT.

Total net income of Piltel increased by 34.4 percent to ₱6,994.3 million for the six months ended June 30, 2009 from ₱5,204.5 million for the same period in 2008 mainly due to higher revenues and other income.

Recent NTC Memorandum Circulars

Memorandum Circular No. 03-07-2009, dated July 3, 2009, extended the validity of prepaid loads depending on the value of the load. Prepaid loads with higher values shall have longer validity periods - the shortest validity period is three (3) days while the maximum period is 120 days.

Memorandum Circular No. 05-07-2009, dated July 23, 2009, prescribes six (6) seconds per pulse as the maximum unit of billing for CMTS voice. Operators will be allowed to charge a higher rate for the first two pulses (or 12 seconds) in order to recover set-up costs. Subscribers, however, may still opt to be billed on a per minute basis or to subscribe to unlimited service offerings. The Memorandum requires all CMTS providers to submit their respective proposed rates within 30 days from effectivity of the circular and to make the necessary adjustments to their billing systems within 120 days from effectivity, in order to effect the change in pulsing thereafter.

Change in business direction

On June 30, 2009, Piltel's stockholders approved the investment of corporate funds in the amount of up to ₱20.07 billion in shares of stock representing approximately 20 percent of the outstanding voting common stock of Manila Electric Company or Meralco. The acquisition of a stake in Meralco is in line with PLDT Group's strategic intent to maximize operational and business synergies that could yield new revenue streams and cost savings for both PLDT Group and Meralco.

In the same meeting, the stockholders also approved the sale and transfer of Piltel's GSM cellular business and assets to Smart.

These transactions are expected to transform Piltel from a telecommunication service provider into a holding company with its 20 percent stake in Meralco as its primary asset.

Given the change in Piltel's business direction, Smart's BOD approved on June 19, 2009 a tender offer to acquire from Piltel's minority shareholders the 839,979,054 shares representing approximately 7.19 percent of the outstanding common stock of Piltel owned by minority stockholders at ₱8.50 per share, payable in cash and in full on August 12, 2009. Smart filed the Tender Offer Report with the SEC and PSE on June 23, 2009. The tender offer period commenced on July 1, 2009 and ended on July 29, 2009. Stockholders holding approximately 93.0 percent of Piltel's minority shares accepted the tender offer, thereby increasing Smart's ownership to approximately 99.5 percent of the outstanding common stock of Piltel.

Investment in Meralco

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., together the Lopez Group and PLDT, entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel as its designated affiliate, 223.0 million shares in Meralco representing approximately 20 percent of Meralco's outstanding shares of common stock, for a cash consideration of ₱20.07 billion, or ₱90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members of the board of directors and board committees of Meralco.

As part of the transaction, Piltel and FPUC also entered into an exchangeable note agreement pursuant to which Piltel purchased an exchangeable note issued on April 20, 2009 by FPUC, with a face value of ₱2.0 billion, exchangeable at Piltel's option into 22.2 million shares of Meralco common stock, which will constitute part of approximately 20 percent of Meralco's voting common shares to be acquired by Piltel. The exchange option is exercisable simultaneously with the acquisition of such shares by Piltel.

On July 14, 2009, Piltel paid ₱18.07 billion and exercised the exchange option for the 22.2 million shares, which is the subject of the exchangeable note issued by FPUC, to complete the acquisition of

the 223.0 million shares in Meralco. The acquisition of the shares was implemented through a special block sale/cross sale executed at the PSE.

Sale and transfer of GSM business/assets to Smart

The transfer of Piltel's cellular business and assets to Smart will be made through a series of transactions, which would include: (a) assignment of Piltel's *Talk 'N Text* trademark to Smart for a consideration of ₱8,004.0 million; (b) the transfer of Piltel's existing *Talk 'N Text* subscriber base to Smart in consideration of ₱73 per subscriber which is equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value.

Subject to NTC's confirmation, the sale and transfer of the GSM business and assets to Smart is expected to be concluded in August 2009.

Results from Continuing Operations (Wireless Service)

Revenues

Piltel's revenues increased by ₱403.0 million, or 4.8 percent, to ₱8,736.0 million for the six months ended June 30, 2009 from ₱8,333.0 million for the same period in 2008, with the increase fueled by the growth in the *Talk 'N Text* subscriber base. The table below shows the breakdown of Piltel's unaudited revenues (in million pesos):

	Six months ended June 30,		Increase (Decrease)	
	2009	2008	Amount	%
Cellular service				
<i>Service revenues</i>				
<i>GSM</i>				
Gross revenues	13,920.1	11,599.5	2,320.6	20.0
Less: Smart's share	4,523.0	2,473.9	2,049.1	82.8
Interconnection expenses	787.4	898.3	(110.9)	(12.3)
Cost of pre-loaded airtime	12.3	57.5	(45.2)	(78.6)
Net service revenues - GSM	8,597.4	8,169.8	427.6	5.2
<i>AMPS/CDMA</i>	1.2	1.2	-	-
<i>Total service revenues</i>	8,598.6	8,171.0	427.6	5.2
<i>Non-service revenues</i>				
Sale of cellular handsets and SIM packs	137.4	162.0	(24.6)	(15.2)
Total revenues	8,736.0	8,333.0	403.0	4.8

Prepaid GSM Service

Piltel provides prepaid digital cellular service through the *Talk 'N Text* brand. In addition to voice services, *Talk 'N Text* allows customers to send and receive text messages. 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.

Piltel has focused on offering value-driven packages for its *Talk 'N Text* subscribers. These include new varieties of top-up services 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, 2009, *Talk 'N Text* subscribers reached 16,584,562, an increase of 4,101,625, or 32.9 percent, over the subscriber base of 12,482,937 as at June 30, 2008.

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 ₱8,597.4 million for the six months ended June 30, 2009 increased by 5.2 percent from ₱8,169.8 million for the same period in 2008 due mainly to a growing subscriber base, partly offset by the change in Smart's share in revenues from 20 percent in 2008 to 30 percent in 2009. In particular, voice revenues increased by 9.5 percent for the first six months of 2009 compared with the same period in 2008 due to the higher volume of local and international inbound and outbound traffic as a result of the growth in subscriber base. However, ARPU for the first six months of 2009 was lower compared to the same period in 2008 due mainly to a decrease in the average revenue per subscriber from bucket-priced text messaging services.

The following table summarizes the unaudited key measures of *Talk 'N Text*'s performance for the six months ended June 30, 2009 and 2008:

	<u>Six months ended June 30,</u>		<u>Increase (Decrease)</u>	
	<u>2009</u>	<u>2008</u>	<u>Amount</u>	<u>%</u>
GSM net service revenues (in million pesos)				
<i>By component</i>				
Data ³	5,604.0	5,435.1	168.9	3.1
Voice	2,993.4	2,734.7	258.7	9.5
Total	<u>8,597.4</u>	<u>8,169.8</u>	<u>427.6</u>	<u>5.2</u>
Data revenues as a % of GSM revenues	65.2%	66.5%		
Subscribers	16,584,562	12,482,937	4,101,625	32.9
Average monthly ARPU ⁴ - gross ⁵ (in ₱)	172	203	(31)	(15.3)
Average monthly ARPU ⁴ - net ⁶ (in ₱)	141	161	(20)	(12.4)

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)	
	2009	2008	Amount	%
<i>Traffic volumes (in millions)</i>				
SMS count				
Text messaging				
Bucket-priced	56,544.1	39,153.3	17,390.8	44.4
Standard text messaging	2,722.2	3,442.1	(719.9)	(20.9)
International text messaging	21.4	18.5	2.9	15.7
	59,287.7	42,613.9	16,673.8	39.1
Value-added services	224.4	211.7	12.7	6.0
Financial services	0.9	1.5	(0.6)	(40.0)
Total	59,513.0	42,827.1	16,685.9	39.0
Calls (in minutes)				
Local				
Inbound	178.8	172.7	6.1	3.5
Outbound	442.8	362.3	80.5	22.2
	621.6	535.0	86.6	16.2
International				
Inbound	325.2	249.7	75.5	30.2
Outbound	15.0	14.8	0.2	1.4
	340.2	264.5	75.7	28.6
Total	961.8	799.5	162.3	20.3

Data

Revenues from data services, which include all SMS (or “text messaging”) or text-related as well as value-added services, increased to ₱5,604.0 million for the six months ended June 30, 2009, an increase of 3.1 percent, from ₱5,435.1 million for the same period in 2008 as traffic for data services generally increased in line with the growth in subscriber base. This was partly offset, however, by the change in the revenue share agreement between Piltel and Smart. Data revenues accounted for 65.2 percent and 66.5 percent of GSM revenues for the six months ended June 30, 2009 and 2008, respectively.

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

	Six months ended June 30,		Increase (Decrease)	
	2009	2008	Amount	%
Text messaging				
Bucket-priced	3,996.3	3,752.5	243.8	6.5
Standard text messaging	1,351.8	1,410.8	(59.0)	(4.2)
International text messaging	84.9	77.8	7.1	9.1
	5,433.0	5,241.1	191.9	3.7
Value-added services				
Standard ⁷	80.4	115.1	(34.7)	(30.1)
Pasa Load	39.9	52.1	(12.2)	(23.4)
Rich media ⁸	49.9	24.8	25.1	101.2
	170.2	192.0	(21.8)	(11.4)
Financial services ⁹	0.8	2.0	(1.2)	(60.0)
Total	5,604.0	5,435.1	168.9	3.1

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 ₱5,433.0 million for the six months ended June 30, 2009, an increase of ₱191.9 million, or 3.7 percent, from ₱5,241.1 million for the same period in 2008. The increase in revenues from text messaging-related services resulted mainly from Piltel's bucket-priced text messaging which increased by 6.5 percent, or ₱243.8 million, to ₱3,996.3 million for the six months ended June 30, 2009 from ₱3,752.5 million for the same period in 2008. Also, international text messaging increased by 9.1 percent, or ₱7.1 million, to ₱84.9 million for the six months ended June 30, 2009 from ₱77.8 million for the same period in 2008. Revenues from standard text messaging, however, decreased by ₱59.0 million, or 4.2 percent, to ₱1,351.8 million for the six months ended June 30, 2009 from ₱1,410.8 million for the same period in 2008. Value-added services, which contributed revenues of ₱170.2 million for the six months ended June 30, 2009, decreased by ₱21.8 million, or 11.4 percent, from ₱192.0 million for the same period in 2008. Although rich media services increased by ₱25.1 million to ₱49.9 million for the six months ended June 30, 2009 from ₱24.8 million for the same period in 2008, both standard VAS and *Pasa Load* services decreased by ₱34.7 million and ₱12.2 million, respectively. Standard VAS decreased to ₱80.4 million for the six months ended June 30, 2009 from ₱115.1 million for the same period in 2008, while *Pasa Load* services decreased from ₱52.1 million in 2008 to ₱39.9 million in 2009.

Voice

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

	Six months ended June 30,		Increase	
	2009	2008	Amount	%
Local				
Inbound	291.7	297.1	(5.4)	(1.8)
Outbound	1,295.0	1,324.3	(29.3)	(2.2)
	<u>1,586.7</u>	<u>1,621.4</u>	<u>(34.7)</u>	<u>(2.1)</u>
International				
Inbound	1,259.1	967.3	291.8	30.2
Outbound	147.6	146.0	1.6	1.1
	<u>1,406.7</u>	<u>1,113.3</u>	<u>293.4</u>	<u>26.4</u>
Total	<u>2,993.4</u>	<u>2,734.7</u>	<u>258.7</u>	<u>9.5</u>

Revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased to ₱2,993.4 million for the six months ended June 30, 2009, or up by 9.5 percent, from ₱2,734.7 million for the same period in 2008. Local service revenues decreased by 2.1 percent, or ₱34.7 million, from ₱1,621.4 million for the six months ended June 30, 2008 to ₱1,586.7 million for the same period this year. International service revenues however increased by 26.4 percent, or ₱293.4 million, to ₱1,406.7 million in 2009 from ₱1,113.3 million in 2008. The volume of traffic for both international and local calls increased, fueled by the growth in subscriber base. Moreover, the depreciation of the peso against the US dollar (average of ₱47.828 for the six months ended June 30, 2009 from ₱42.007 for the same period in 2008) had a favorable effect on international revenues. These increases, however, were partly offset by the change in the revenue-sharing agreement with Smart. Voice revenues contributed 34.8 percent and 33.5 percent of GSM revenues for the six months ended June 30, 2009 and 2008, respectively.

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 4,101,625, or 32.9 percent, from 12,482,937 as at June 30, 2008 to 16,584,562 as at June 30, 2009. Net activations for the six months ended June 30, 2009 and 2008 were 2,276,069 and 2,781,111, respectively.

ARPU

Gross ARPU of *Talk 'N Text* subscribers decreased by 15.3 percent from ₱203 for the six months ended June 30, 2008 to ₱172 in the same period this year. The decline was attributable to a decrease in the average revenue per subscriber from bucket-priced and international text messaging services, as well as standard VAS and *Pasa Load* services. On a net basis, ARPU for the six months ended June 30, 2009 was ₱141, or 12.4 percent down from ₱161 for the same period in 2008.

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 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 *Pasa Load*. 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 was 4.3 percent for the six months ended June 30, 2009 and 2008.

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 for each of the six months ended June 30, 2009 and 2008. The AMPS/CDMA services were significantly reduced with the decommissioning of all but six cell sites.

Non-Service Revenues

Sale of SIM packs and cellular handsets decreased by 15.2 percent from ₱162.0 million for the six months ended June 30, 2008 to ₱137.4 million for the same period this year on account of lower phonekit releases for the first six months of 2009.

Expenses

Total expenses increased by ₱146.6 million, or 14.1 percent, to ₱1,189.5 million for the six months ended June 30, 2009 from ₱1,042.9 million for the same period in 2008 mainly due to the increase in professional and other service fees, selling and promotions expense, taxes and licenses and maintenance. The rest of the expense items decreased from last year’s level.

(in million pesos)	Six months ended June 30,				Increase (Decrease)	
	2009		2008		Amount	%
	Amount	%	Amount	%		
Selling and promotions	370.8	31.2	346.1	33.2	24.7	7.1
Cost of SIM packs and cellular handsets sold	227.7	19.1	234.0	22.4	(6.3)	(2.7)
Professional and other service fees	206.6	17.4	38.9	3.7	167.7	431.1
Depreciation and amortization	184.2	15.5	211.4	20.3	(27.2)	(12.9)
Taxes and licenses	91.5	7.7	83.9	8.1	7.6	9.1
Rent	60.5	5.1	62.6	6.0	(2.1)	(3.4)
Maintenance	33.1	2.8	26.3	2.5	6.8	25.9
Write-down of inventories to net realizable values	-	-	14.9	1.4	(14.9)	(100.0)
Other expenses	15.1	1.2	24.8	2.4	(9.7)	(39.1)
Total Expenses	1,189.5	100.0	1,042.9	100.0	146.6	14.1

Selling and promotions increased by ₱24.7 million, or 7.1 percent, to ₱370.8 million for the six months ended June 30, 2009 from ₱346.1 million for the same period in 2008 mainly due to an increase in media advertisement and promotions.

Cost of SIM packs and cellular handsets sold decreased by ₱6.3 million, or 2.7 percent, from ₱234.0 million for the six months ended June 30, 2008 to ₱227.7 million for the same period this year mainly due to lower phonekit releases for the first six months of 2009. Phonekit releases decreased from 7.2 million for the six months ended June 30, 2008 to 6.9 million for the same period in 2009.

Professional and other service fees increased by ₱167.7 million to ₱206.6 million for the six months ended June 30, 2009 from ₱38.9 million for the same period in 2008 mainly due to higher consultancy fees.

Depreciation and amortization decreased by ₱27.2 million, or 12.9 percent, from ₱211.4 million for the six months ended June 30, 2008 to ₱184.2 million for the same period in 2009 as certain buildings and improvements and telecommunications equipment were already fully depreciated.

Taxes and licenses increased by ₱7.6 million, or 9.1 percent, to ₱91.5 million for the six months ended June 30, 2009 from ₱83.9 million for the same period in 2008 mainly due to an increase in NTC licenses and fees, partly offset by a decrease in municipal taxes.

Rent decreased by ₱2.1 million from ₱62.6 million for the six months ended June 30, 2008 to ₱60.5 million for the same period this year mainly due to decrease in site rental.

Maintenance for the six months ended June 30, 2009 increased by ₱6.8 million, or 25.9 percent, to ₱33.1 million from ₱26.3 million for the same period in 2008 mainly due to higher electricity and repairs for cell sites.

Write-down of inventories to net realizable values decreased from ₱14.9 million for the six months ended June 30, 2008 to nil this year as it was determined that the carrying values of commercial inventory approximated the net realizable values and thus no provision is necessary.

Other operating expenses decreased by ₱9.7 million, or 39.1 percent, from ₱24.8 million for the six months ended June 30, 2008 to ₱15.1 million for the same period this year mainly due to lower miscellaneous expenses.

Other Income - Net

Net other income increased by ₱613.5 million, or 113.4 percent, to ₱1,154.4 million for the six months ended June 30, 2009 from ₱540.9 million for the same period last year due to the increase in other miscellaneous income and interest income, partly offset by a decrease in rent income.

	Six months ended June 30,		Increase (Decrease)	
	2009	2008	Amount	%
Interest income	473.4	343.0	130.4	38.0
Rent income	18.0	200.6	(182.6)	(91.0)
Foreign exchange losses - net	(0.9)	(2.2)	(1.3)	(59.1)
Financing costs	(5.6)	(2.7)	(2.9)	(107.4)
Others - net	669.5	2.2	667.3	30,331.8
Total	1,154.4	540.9	613.5	113.4

Piltel recorded interest income of ₱473.4 million for the six months ended June 30, 2009, an increase of 38.0 percent, or ₱130.4 million, from ₱343.0 million for the same period in 2008. 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 ₱18.0 million and ₱200.6 million for the six months ended June 30, 2009 and 2008, respectively, pertained mostly to co-location income from Smart. The decrease in 2009 was a result of the expiration of certain co-location agreements between Piltel and Smart on December 31, 2008 (see Related Party Transactions).

Other income of ₱669.5 million for the six months ended June 30, 2009 increased by ₱667.3 million from the same period in 2008 due mainly to prior period tax adjustments.

Provision for Income Tax

Piltel recorded provision for income tax of ₱1,706.6 million for the six months ended June 30, 2009, a decrease of ₱981.9 million, from ₱2,688.5 million provision for the same period in 2008 mainly because of the reduction in corporate income tax rate from 35.0 percent to 30.0 percent effective January 2009. Moreover, Piltel elected to use the OSD method in computing its net taxable income (see *Note 5 – Income Taxes* of the notes to the accompanying unaudited consolidated financial statements).

Net Income from Continuing Operations

Net income from continuing operations for the six months ended June 30, 2009 was ₱6,994.3 million, an increase of 36.0 percent, or ₱1,851.8 million, from ₱5,142.5 million recorded in the same period a year ago. The increase was a result of higher revenues and other income and lower provision for income tax in the six months ended June 30, 2009 compared with the same period in 2008, offset by an increase in expenses.

Results from Discontinued Operations (Fixed Line Service)

On June 4, 2008, the NTC approved the transfer of Piltel's LEC asset to PLDT. These assets were the subject of the LEC Asset Sale and Purchase Agreement dated December 4, 2007 between Piltel and PLDT (see Related Party Transactions), which covers the exchanges being managed by PLDT and PLDT Subic Telecom, Inc. (Subictel). PLDT paid a total of ₱866.9 million (including VAT and net of tax withheld) to Piltel. Correspondingly, all the LEC assets and liabilities relating to the transfer were removed from Piltel's books. Operations of the LEC business in 2008 resulted in a net income of

₱62.0 million presented in the consolidated statement of income as “Net Income from Discontinued Operations”.

Liquidity and Capital Resources

The following table sets out Piltel’s unaudited cash flows, capitalization and other selected financial data for the six months ended June 30, 2009 and 2008, and as at June 30, 2009 and December 31, 2008:

(in million pesos)	Six months ended June 30,		Increase (Decrease)	
	2009	2008	Amount	%
Cash Flows				
Net cash provided by operating activities	5,884.6	6,814.2	(929.6)	(13.6)
Net cash provided by (used in) investing activities	4,504.8	(1,428.7)	5,933.5	415.3
<i>Capital expenditures</i>	22.4	793.1	(770.7)	(97.2)
Net cash used in financing activities	6,371.4	1.1	6,370.3	579,118.2
	June 30, 2009	Dec. 31, 2008		
Capitalization				
Equity	21,593.2	20,973.1	620.1	3.0
Finance lease obligation	42.5	42.5	–	–

As at June 30, 2009, Piltel’s cash and cash equivalents and short-term investments totaled ₱10,058.8 million.

Operating Activities

Cash flows from operations for the six months ended June 30, 2009 decreased to ₱5,884.6 million from ₱6,814.2 million for the same period in 2008 mainly due to higher income taxes paid for the six months ended June 30, 2009 of ₱2,386.1 million compared with ₱233.8 million for the same period in 2008.

Investing Activities

Piltel’s cash provided by investing activities amounted to ₱4,504.8 million for the six months ended June 30, 2009 as against cash used which amounted to ₱1,428.7 million for the same period in 2008. Cash flows from investing activities for the six months ended June 30, 2009 were derived from the proceeds from the maturity of short-term investments of ₱5,968.7 million, proceeds from disposal of investment in debt securities of ₱1,952.8 million, and interest income of ₱310.5 million. Cash was used for investment in debt securities and short term investment amounting to ₱2,605.5 million and ₱1,100.6 million, respectively, and capital expenditures of ₱22.4 million for the GSM network. In 2008, cash was used for short-term investments in the amount of ₱6,585.3 million, investment in debt securities of ₱538.3 million and capital expenditures of ₱793.1 million also for the GSM network, while cash flows were provided by proceeds from short-term investments of ₱5,555.3 million, proceeds from sale of fixed line assets of ₱791.6 million and interest income of ₱137.0 million.

Financing Activities

Net cash used in Piltel’s financing activities for the six months ended June 30, 2009 amounted to ₱6,371.4 million, an increase of ₱6,370.3 million as compared with ₱1.1 million for the same period in 2008. Piltel paid final cash dividends of ₱6,077.1 million for 2008 on its common shares in March 2009, completed its share buyback program at a cost of ₱282.2 million in the first quarter of 2009 and redeemed its preferred shares at a total cost of ₱14.4 million in May 2009.

Outstanding Debt

As at June 30, 2009, Piltel's remaining outstanding debt pertain to the finance lease with the DOTC with a carrying value of ₱42.5 million.

Refer to *Note 17 – Finance Lease Obligation* of the notes to the accompanying unaudited consolidated financial statements for further details of Piltel's debts.

Equity Financing

As at June 30, 2009, 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 11,686.7 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 7.2 million shares which were issued and outstanding as of April 3, 2009, were redeemed effective on May 3, 2009.
- 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 August 4, 2008, Piltel's BOD declared an interim cash dividend of ₱0.43 per share of common stock or ₱5,061.1 million to holders of record as of August 15, 2008, which was paid on September 12, 2008. On March 2, 2009, Piltel declared final cash dividend of ₱0.52 per share of common stock or ₱6,077.1 million to holders of record as at March 16, 2009, which was paid on March 31, 2009. Total dividends declared on common shares amounted to ₱0.95 per share, representing a payout of approximately 100 percent of 2008 earnings per share. On April 3, 2009, Piltel declared dividends on the outstanding shares of Class I preferred stock accruing from January 1, 2009 to May 3, 2009 totaling ₱0.3 million, which was paid on May 3, 2009 together with the redemption price of the Class I preferred shares.

Piltel's equity of ₱21,593.2 million as at June 30, 2009 increased by ₱620.1 million from ₱20,973.1 million as at December 31, 2008. Retained earnings increased to ₱7,647.7 million as at June 30, 2009 from ₱6,730.8 million as at December 31, 2008. The cash dividends paid to common shareholders amounting to ₱6,077.1 million and to preferred shareholders amounting to ₱0.3 million, as well as the cost of the share buyback program of ₱282.2 million and the cost of redemption of the preferred shares of ₱14.4 million, offset the net income of ₱6,994.3 million for the six months ended June 30, 2009.

Other Financial Data

(in million pesos)	<u>June 30, 2009</u>	<u>Dec 31, 2008</u>	<u>Increase (Decrease)</u>	
			<u>Amount</u>	<u>%</u>
ASSETS				
Noncurrent Assets				
Property and equipment - net	1,909.3	2,071.5	(162.2)	(7.8)
Investment properties	416.7	416.7	–	–
Deferred income tax assets - net	81.0	85.5	(4.5)	(5.3)
Prepayments - net of current portion	85.2	83.4	1.8	2.2
Investments and other noncurrent assets	13.0	13.2	(0.2)	(1.5)
Total noncurrent assets	<u>2,505.2</u>	<u>2,670.3</u>	<u>(165.1)</u>	<u>(6.2)</u>
Current Assets				
Cash and cash equivalents	9,258.8	5,240.8	4,018.0	76.7
Short-term investments	800.0	5,668.1	(4,868.1)	(85.9)
Investment in debt securities	2,321.9	1,655.7	666.2	40.2
Trade and other receivables - net	9,373.8	8,642.3	731.5	8.5
Inventories - at net realizable value	62.4	77.3	(14.9)	(19.3)
Current portion of prepayments	82.7	89.8	(7.1)	(7.9)
Total current assets	<u>21,899.6</u>	<u>21,374.0</u>	<u>525.6</u>	<u>2.5</u>
	<u>24,404.8</u>	<u>24,044.3</u>	<u>360.5</u>	<u>1.5</u>
EQUITY AND LIABILITIES				
Equity	<u>21,593.2</u>	<u>20,973.1</u>	<u>620.1</u>	<u>3.0</u>
Noncurrent Liabilities				
Asset retirement obligations	1.6	1.4	0.2	14.3
Total noncurrent liabilities	<u>1.6</u>	<u>1.4</u>	<u>0.2</u>	<u>14.3</u>
Current Liabilities				
Trade and other payables	1,616.7	1,183.2	433.5	36.6
Unearned revenue on sale of prepaid cards	188.6	201.0	(12.4)	(6.2)
Income tax payable	962.2	1,643.1	(680.9)	(41.4)
Finance lease obligation	42.5	42.5	–	–
Total current liabilities	<u>2,810.0</u>	<u>3,069.8</u>	<u>(259.8)</u>	<u>(8.5)</u>
	<u>24,404.8</u>	<u>24,044.3</u>	<u>360.5</u>	<u>1.5</u>

Noncurrent Assets

- a. Property and equipment - net decreased by 7.8 percent to ₱1,909.3 million as at June 30, 2009 from ₱2,071.5 million at year-end 2008 on account mainly of depreciation charges for the six months ended June 30, 2009.
- b. Investment properties, which pertain to land and buildings rented out to Smart remained at year-end 2008 level.
- c. Deferred income tax assets decreased by 5.3 percent to ₱81.0 million as at June 30, 2009 from ₱85.5 million at year-end 2008 due to lower deferred income tax assets on unearned revenue on sale of prepaid cards (see *Note 5 – Income Taxes* of the notes to the accompanying unaudited consolidated financial statements).
- d. Prepayments – net of current portion, which pertain mostly to deferred input VAT on purchases of telecommunications and other equipment, increased by 2.2 percent, or ₱1.8 million, to ₱85.2 million as at June 30, 2009 from ₱83.4 million at year-end 2008.
- e. Investments and other noncurrent assets as at June 30, 2009 approximated 2008 year-end level.

Current Assets

- f. Cash and cash equivalents increased by 76.7 percent to ₱9,258.8 million as at June 30, 2009 from ₱5,240.8 million at year-end 2008 (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, was reduced from ₱5,668.1 million at year-end 2008 to ₱800.0 million as at June 30, 2009 to fund Piltel's cash dividend payment.
- h. Investment in debt securities, which are peso-denominated government securities and zero coupon bonds expiring within twelve months increased from ₱1,655.7 million at year-end 2008 to ₱2,321.9 million as at June 30, 2009 due to the purchase of an exchangeable note issued by FPUC with a face value of ₱2.0 billion in connection with Piltel's acquisition of Meralco shares (see *Note 1 – Corporate Information* and *Note 12 – Investment in Debt Securities* of the notes to the accompanying unaudited consolidated financial statements).
- i. Trade and other receivables – net increased by 8.5 percent to ₱9,373.8 million as at June 30, 2009 from ₱8,642.3 million at year-end 2008 mainly due to the increase in receivable from Smart. Receivable from Smart amounted to ₱9,236.5 million and ₱8,416.8 million as at June 30, 2009 and December 31, 2008, respectively.
- j. Inventories - net decreased by 19.3 percent to ₱62.4 million as at June 30, 2009 from ₱77.3 million at year-end 2008 mainly due to the decrease in volume of handsets inventory for *Talk 'N Text*.
- k. Current portion of prepayments decreased by 7.9 percent to ₱82.7 million as at June 30, 2009 from ₱89.8 million at year-end 2008 mainly due to the decrease in deferred input VAT.

Equity

- l. Equity increased by 3.0 percent to ₱21,593.2 million as at June 30, 2009 from ₱20,973.1 million at year-end 2008 due to the net income of ₱6,994.3 million recorded for the six months ended June 30, 2009, offset by the cash dividends paid to common shareholders amounting to ₱6,077.1 million and to preferred shareholders amounting to ₱0.3 million, as well as the cost of the share buyback program of ₱282.2 million and the cost of redemption of the preferred shares of ₱14.4 million.

Noncurrent Liabilities

- m. Asset retirement obligations of ₱1.6 million, which pertain to accruals for the restoration of leased cell sites, increased by 14.3 percent, or ₱0.2 million from the 2008 year-end level.

Current Liabilities

- n. Trade and other payables increased by 36.6 percent to ₱1,616.7 million as at June 30, 2009 from ₱1,183.2 million at year-end 2008 mainly due to the increase in accrual for taxes and licenses.
- o. Unearned revenue on sale of prepaid cards of ₱188.6 million as at June 30, 2009 decreased by 6.2 percent, or ₱12.4 million, from ₱201.0 million as at December 31, 2008.
- p. Piltel's income tax liability as at June 30, 2009 and at year-end 2008 of ₱962.2 million and ₱1,643.1 million, respectively, pertains to regular corporate income tax, or RCIT.
- q. Finance lease obligation as at June 30, 2009 of ₱42.5 million remained at 2008 year-end level (see *Note 17 – Finance Lease Obligation* of the notes to the accompanying unaudited consolidated financial statements).

Contractual Obligations

Refer to *Note 20 – Contractual Obligations* of the notes to the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at June 30, 2009, Piltel had no outstanding commercial commitments.

Financial Risk Management Objectives and Policies

Refer to *Note 22 – Financial Assets and Liabilities* of the notes to the accompanying unaudited consolidated financial statements.

Related Party Transactions

In the ordinary course of business, Piltel has transactions with 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 Value-Added Services (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, 2009, the carrying value of GSM network assets purchased by Piltel under the OSA amounted to ₱1,837.1 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. The revenue sharing arrangement remained at 80%-20% in favor of Piltel in 2008. 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.

On January 26, 2009, Piltel's BOD confirmed the amendment of Piltel's revenue-sharing arrangement with Smart beginning January 1, 2009 until December 31, 2010. The review of the revenue-sharing arrangement was undertaken at the request of Smart in the context of the changed

market circumstances. The growing popularity of “bucket-price” packages, which were introduced in 2006, has altered Piltel’s revenue mix and resulted in reduced yields per SMS and minute. This shift, coupled with increased costs arising from network expansion and upgrades to support a much larger subscriber base, has resulted in Smart’s inability to recover its related costs to service Piltel’s growing subscriber base with its 20% share of Piltel’s revenues. The revised revenue share ratio is expected to allow Smart to substantially recover its costs while having a minimal negative impact on Piltel’s profits in the face of *Talk ‘N Text*’s growing subscriber base. The confirmation came after an independent advisor, engaged to advise an independent Board Committee of Piltel, found a 70%-30% revenue share ratio in favor of Piltel to be reasonable for the two-year period, under current market conditions.

Smart’s share in Piltel’s GSM net revenues under the foregoing agreements amounted to ₱4,523.0 million and ₱2,473.9 million for the six months ended June 30, 2009 and 2008, 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 (included as part of “Rent income” in the consolidated statements of income) under this agreement amounted to nil and ₱201.1 million for the six months ended June 30, 2009 and 2008. Since December 31, 2008, the balance of the unearned co-location fees has been fully amortized.

- c. 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 ₱239.6 million and ₱136.8 million for the six months ended June 30, 2009 and 2008, respectively.

Outstanding receivable from Smart amounted to ₱9,236.5 million and ₱8,416.8 million, net of lease liability of ₱54.0 million and ₱119.9 million as at June 30, 2009 and December 31, 2008, respectively (see *Note 13 – Trade and Other Receivables*).

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
BOD	Board of Directors
CDMA	Code Digital Multiple Access
DOTC	Department of Transportation and Communication
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
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*-to-*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 ₱10, ₱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 3, 2009.

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, 2009 (Unaudited) and December 31, 2008 (Audited)
and For The Six months ended
June 30, 2009 and 2008 (Unaudited)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30, 2009 AND DECEMBER 31, 2008
(In Million Pesos, Except Par Value Per Share Amounts and Number of Shares)

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
ASSETS		
Noncurrent Assets		
Property and equipment - net <i>(Notes 3, 8, 17, 19 and 22)</i>	1,909.3	2,071.5
Investment properties <i>(Notes 3, 9 and 22)</i>	416.7	416.7
Deferred income tax assets - net <i>(Notes 3, 4, 5 and 22)</i>	81.0	85.5
Prepayments - net of current portion <i>(Notes 15 and 22)</i>	85.2	83.4
Investments and other noncurrent assets <i>(Notes 10 and 22)</i>	13.0	13.2
Total Noncurrent Assets	2,505.2	2,670.3
Current Assets		
Cash and cash equivalents <i>(Notes 11 and 22)</i>	9,258.8	5,240.8
Short-term investments <i>(Note 22)</i>	800.0	5,668.1
Investment in debt securities <i>(Notes 12 and 22)</i>	2,321.9	1,655.7
Trade and other receivables - net <i>(Notes 3, 13, 19 and 22)</i>	9,373.8	8,642.3
Inventories - at net realizable value <i>(Notes 14 and 22)</i>	62.4	77.3
Current portion of prepayments <i>(Notes 15 and 22)</i>	82.7	89.8
Total Current Assets	21,899.6	21,374.0
	24,404.8	24,044.3
EQUITY AND LIABILITIES		
Equity		
Preferred stock, Class I, ₱2 par value, authorized - 120,000,000 shares; issued and outstanding - 7,218,270 shares <i>(Note 16)</i>	-	14.4
Common stock, ₱1 par value, authorized - 12,060,000,000 shares; issued - 11,771,748,431 shares; issued and outstanding - 11,686,741,390 shares in 2009 and 11,725,155,390 shares in 2008 <i>(Notes 7 and 16)</i>	11,771.7	11,771.7
Additional paid-in capital	2,800.6	2,800.6
Retained earnings	7,647.7	6,730.8
Treasury stock - 85,007,041 shares in 2009 and 46,593,041 shares in 2008 <i>(Note 16)</i>	(626.3)	(344.1)
Cumulative translation adjustments	(0.5)	(0.3)
Total Equity	21,593.2	20,973.1
Noncurrent Liabilities		
Asset retirement obligations <i>(Notes 3 and 22)</i>	1.6	1.4
Current Liabilities		
Trade and other payables <i>(Notes 18, 19, 20 and 22)</i>	1,616.7	1,183.2
Unearned revenue on sale of prepaid cards <i>(Notes 2 and 22)</i>	188.6	201.0
Income tax payable <i>(Notes 5 and 22)</i>	962.2	1,643.1
Finance lease obligation <i>(Notes 3, 17, 20, 21 and 22)</i>	42.5	42.5
Total Current Liabilities	2,810.0	3,069.8
	24,404.8	24,044.3

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, 2009 AND 2008

(In Million Pesos, Except Earnings Per Common Share Amounts)

	Six months ended June 30,		Three months ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
CONTINUING OPERATIONS				
Revenues				
Service revenues <i>(Notes 3, 4 and 19)</i>	8,598.6	8,171.0	4,355.8	4,302.3
Sale of SIM packs and cellular handsets <i>(Note 4)</i>	137.4	162.0	65.2	90.6
	8,736.0	8,333.0	4,421.0	4,392.9
Expenses				
Selling and promotions	370.8	346.1	183.8	112.6
Cost of SIM packs and cellular handsets sold	227.7	234.0	107.2	124.7
Professional and other service fees <i>(Note 19)</i>	206.6	38.9	113.2	24.7
Depreciation and amortization <i>(Notes 3, 4 and 8)</i>	184.2	211.4	91.3	111.1
Taxes and licenses	91.5	83.9	45.5	40.0
Rent <i>(Note 3)</i>	60.5	62.6	30.1	60.3
Maintenance	33.1	26.3	14.0	15.4
Write-down of inventories to net realizable value	—	14.9	—	14.9
Other expenses	15.1	24.8	8.7	11.7
	1,189.5	1,042.9	593.8	515.4
	7,546.5	7,290.1	3,827.2	3,877.5
Other Income - Net				
Interest income <i>(Notes 11, 12 and 19)</i>	473.4	343.0	206.8	188.9
Rent income <i>(Note 19)</i>	18.0	200.6	9.0	99.5
Foreign exchange loss - net <i>(Note 22)</i>	(0.9)	(2.2)	(1.0)	(1.2)
Financing costs <i>(Note 22)</i>	(5.6)	(2.7)	(1.3)	(1.6)
Others - net	669.5	2.2	664.7	1.1
	1,154.4	540.9	878.2	286.7
INCOME BEFORE INCOME TAX	8,700.9	7,831.0	4,705.4	4,164.2
PROVISION FOR INCOME TAX <i>(Notes 4 and 5)</i>	1,706.6	2,688.5	959.9	1,412.2
NET INCOME FROM CONTINUING OPERATIONS <i>(Notes 4 and 7)</i>	6,994.3	5,142.5	3,745.5	2,752.0
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS <i>(Notes 4, 6 and 7)</i>	—	62.0	—	(5.1)
NET INCOME FOR THE PERIOD <i>(Notes 4 and 7)</i>	6,994.3	5,204.5	3,745.5	2,746.9
Earnings Per Common Share <i>(Note 7)</i>				
Basic	0.5980	0.4421	0.3203	0.2334
Diluted	0.5971	0.4410	0.3197	0.2328
Earnings Per Common Share From Continuing Operations <i>(Note 7)</i>				
Basic	0.5980	0.4368	0.3203	0.2338
Diluted	0.5971	0.4358	0.3197	0.2332
Earnings Per Common Share From Discontinued Operations <i>(Note 7)</i>				
Basic	—	0.0053	—	(0.0004)
Diluted	—	0.0052	—	(0.0004)

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, 2009 AND 2008
(In Million Pesos)

	Preferred Stock Class I	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Cumulative Translation Adjustments	Total
Balances at December 31, 2007 (Audited)	14.4	11,771.7	2,800.6	447.0	(36.0)	0.3	14,998.0
Net income for the period <i>(Notes 4 and 7)</i>	-	-	-	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
Balances at December 31, 2008 (Audited)	14.4	11,771.7	2,800.6	6,730.8	(344.1)	(0.3)	20,973.1
Net income for the period <i>(Notes 4 and 7)</i>	-	-	-	6,994.3	-	-	6,994.3
Allowance for decline in fair market value of available- for-sale investments <i>(Note 10)</i>	-	-	-	-	-	(0.2)	(0.2)
Total net income for the period	-	-	-	6,994.3	-	(0.2)	6,994.1
Dividends paid – Common <i>(Note 16)</i>	-	-	-	(6,077.1)	-	-	(6,077.1)
Dividends paid – Preferred <i>(Note 16)</i>	-	-	-	(0.3)	-	-	(0.3)
Redemption of preferred shares <i>(Note 16)</i>	(14.4)	-	-	-	-	-	(14.4)
Shares buyback <i>(Note 16)</i>	-	-	-	-	(282.2)	-	(282.2)
Balances at June 30, 2009 (Unaudited)	-	11,771.7	2,800.6	7,647.7	(626.3)	(0.5)	21,593.2

See accompanying Notes to Unaudited Consolidated Financial Statements.

PILIPINO TELEPHONE CORPORATION AND SUBSIDIARIES

(A Subsidiary of Smart Communications, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In Million Pesos)

	Six months ended June 30,	
	2009	2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax <i>(Note 4)</i>	8,700.9	7,893.0
Adjustments:		
Depreciation and amortization <i>(Notes 3, 4 and 8)</i>	184.2	230.7
Interest expense	5.6	2.8
Foreign exchange losses <i>(Note 22)</i>	0.9	2.2
Charge to cost of sales	(0.1)	(9.9)
Gain on sale of property and equipment	(0.8)	(0.6)
Interest income <i>(Notes 11, 12 and 19)</i>	(473.4)	(343.0)
Write-down of inventories to net realizable values	–	14.9
Provision for doubtful accounts <i>(Notes 3 and 6)</i>	–	2.8
Operating income before changes in assets and liabilities	8,417.3	7,792.9
Decrease (increase) in:		
Trade and other receivables	(584.9)	(489.2)
Inventories	14.9	(70.5)
Prepayments	8.4	(101.7)
Increase (decrease) in:		
Trade and other payables	427.4	148.2
Unearned revenue on sale of prepaid cards	(12.4)	(31.6)
Unearned revenue on co-location	–	(200.1)
Net cash generated from operations	8,270.7	7,048.0
Income taxes paid	(2,386.1)	(233.8)
Net cash provided by operating activities	5,884.6	6,814.2
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from short-term investments	5,968.7	5,555.3
Proceeds from disposal of investment in debt securities	1,952.8	–
Interest received	310.5	137.0
Proceeds from sale of property and equipment	1.2	4.1
Dividend received	0.1	–
Additions to property and equipment <i>(Note 8)</i>	(22.4)	(793.1)
Payments for short-term investments	(1,100.6)	(6,585.3)
Payments for investment in debt securities	(2,605.5)	(538.3)
Proceeds from sale of fixed line assets classified as held-for-sale	–	791.6
Net cash provided by (used in) investing activities	4,504.8	(1,428.7)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid <i>(Note 16)</i>	(6,074.8)	(1.1)
Shares buyback	(282.2)	–
Redemption of preferred shares	(14.4)	–
Cash used in financing activities	(6,371.4)	(1.1)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,018.0	5,384.4
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	5,240.8	605.9
CASH AND CASH EQUIVALENTS		
AT END OF YEAR	9,258.8	5,990.3

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Pilipino Telephone Corporation (Piltel) is one of the largest cellular mobile telephone service (CMTS) providers in the Philippines as measured by the number of subscribers. Piltel also provided fixed line telephone services until June 2008 when it transferred its fixed line business to Philippine Long Distance Telephone Company (PLDT).

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 Advanced Mobile Phone System (AMPS) technology to the digital Code Digital Multiple Access (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.

Currently, 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 92.8 percent-owned by Smart as at June 30, 2009. Smart is wholly owned and controlled by 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 19 – Related Party Transactions*), aside from its officers, Piltel has no employees as at June 30, 2009 and December 31, 2008.

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, 2009.

Change in business direction

On June 30, 2009, Piltel's stockholders approved the investment of corporate funds in the amount of up to ₱20.07 billion in shares of stock representing approximately 20 percent of the outstanding voting common stock of Manila Electric Company or Meralco. The acquisition of a stake in Meralco is in line with PLDT Group's strategic intent to maximize operational and business synergies that could yield new revenue streams and cost savings for both PLDT Group and Meralco.

In the same meeting, the stockholders also approved the sale and transfer of Piltel's GSM cellular business and assets to Smart.

These transactions are expected to transform Piltel from a telecommunication service provider into a holding company with its 20 percent stake in Meralco as its primary asset.

Given the change in Piltel's business direction, Smart's Board of Directors approved on June 19, 2009 a tender offer to acquire from Piltel's minority shareholders the 839,979,054 shares representing approximately 7.19 percent of the outstanding common stock of Piltel owned by minority stockholders at ₱8.50 per share, payable in cash and in full on August 12, 2009. Smart filed the Tender Offer Report with the Securities and Exchange Commission (SEC) and PSE on June 23, 2009. The tender offer period commenced on July 1, 2009 and ended on July 29, 2009. Stockholders holding approximately 93.0 percent of Piltel's minority shares accepted the tender offer, thereby increasing Smart's ownership to approximately 99.5 percent of the outstanding common stock of Piltel.

Investment in Meralco

On March 12, 2009, First Philippine Holdings Corporation, or FPHC, First Philippine Utilities Corporation, or FPUC, and Lopez, Inc., together the Lopez Group and PLDT, entered into an investment and cooperation agreement pursuant to which: (a) PLDT agreed to acquire, through Piltel as its designated affiliate, 223.0 million shares in Meralco representing approximately 20 percent of Meralco's outstanding shares of common stock, for a cash consideration of ₱20.07 billion, or ₱90 per share, and (b) PLDT and the Lopez Group agreed on certain governance matters, including the right of PLDT or its designee to nominate certain senior management officers and members of the board of directors and board committees of Meralco.

As part of the transaction, Piltel and FPUC entered into an exchangeable note agreement pursuant to which Piltel purchased an exchangeable note on April 20, 2009 issued by FPUC, with a face value of ₱2.0 billion, exchangeable at Piltel's option into 22.2 million shares of Meralco common stock, which will constitute part of approximately 20 percent of Meralco's voting common shares to be acquired by Piltel. The exchange option is exercisable simultaneously with the acquisition of such shares by Piltel.

On July 14, 2009, Piltel paid ₱18.07 billion and exercised the exchange option for the 22.2 million shares, which is the subject of the exchangeable note issued by FPUC (see *Note 12 – Investment in Debt Securities*) to complete the acquisition of the 223.0 million shares in Meralco.

Sale and transfer of GSM business/assets to Smart

The transfer of Piltel's cellular business and assets to Smart will be made through a series of transactions, which would include: (a) assignment of Piltel's *Talk 'N Text* trademark to Smart for a consideration of ₱8,004.0 million; (b) the transfer of Piltel's existing *Talk 'N Text* subscriber base to Smart in consideration of ₱73 per subscriber which is equivalent to the average subscriber acquisition cost in 2008 of Smart for its *Smart Buddy* subscribers; and (c) the sale of Piltel's GSM fixed assets to Smart at net book value.

Subject to NTC's confirmation, the sale and transfer of the GSM business and assets to Smart is expected to be concluded in August 2009. Further, as the final balances of assets to be transferred to Smart have yet to be determined, Piltel did not present the related assets as "non-current assets available for sale" under PFRS 5 in its June 30, 2009 financial statements.

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.

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 Philippine Financial Reporting Standards, or PFRS. PFRS include statements named PFRS and Philippine Accounting Standards, or PAS, and Philippine interpretations based on equivalent interpretations issued by the International Financial Reporting Interpretations Committee, or IFRIC.

Basis of 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) ^(a)	Philippines	Operator services
Piltel International Holdings Corporation (PIHC)	British Virgin Islands	Issuance of bonds convertible into common shares of Piltel

^(a) Telserv remains dormant as at June 30, 2009.

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 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.

Change in Accounting Policies

Piltel's accounting policies are consistent with those of the previous financial year except for the adoption of the new standard, interpretations and amendments to existing standards which became effective on January 1, 2009. Piltel's adoption of such new standard, interpretations and amendments to existing standards did not have any significant effect on its unaudited consolidated financial statements except for additional disclosures, including, in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

Amendments to PFRS 7, "Financial Instruments: Disclosures – Improving Disclosures About Financial Instruments"

The amendments to PFRS 7 introduce enhanced disclosures about fair value measurement and liquidity risk. The amendments to PFRS 7 require fair value measurements for each class of financial instruments to be disclosed by the source of inputs, using the following three-level hierarchy: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). The level within which the fair value measurement is categorized must be based on the lowest level of input to the instrument's valuation that is significant to the fair value measurement in its entirety.

The amendments to PFRS 7 also introduce two major changes in liquidity risk disclosures as follows: (a) exclusion of derivative liabilities from maturity analysis unless the contractual maturities are essential for an understanding of the timing of the cash flows and (b) inclusion of financial guarantee contracts in the contractual maturity analysis based on the maximum amount guaranteed.

PFRS 2, “Share-based Payment – Vesting Condition and Cancellations”

The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. The adoption of this standard is not relevant to Piltel.

PFRS 8, “Operating Segments”

PFRS 8 replaces PAS 14, “Segment Reporting” and adopts a full management approach to identifying, measuring and disclosing the results of an entity’s operating segments. The information required to be reported is similar to what management uses internally for evaluating the performance of operating segments and allocating resources to those segments. In cases where such information is different from those that are required to be reported in the consolidated statement of financial position and consolidated income statement, the adopting entity provides explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are publicly traded or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

PAS 1 (Revised), “Presentation of Financial Statements”

PAS 1 has been revised to enhance the usefulness of information presented in the financial statements. The key changes are: (1) the statement of changes in equity includes only transactions with 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 financial 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 statement of income 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 investments 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 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 “balance sheet” with “statement of financial position” and “cash flow statement” with “statement of cash flows”, although the titles are not obligatory.

PAS 23 (Revised), “Borrowing Costs”

The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The adoption of revised PAS 23 did not have an impact on Piltel’s unaudited consolidated financial statements.

Amendments to PAS 27, “Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”

These amendments prescribe changes in respect of the holding companies’ separate financial statements including (a) the deletion of ‘cost method’, making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The adoption of amendments to PAS 27 did not have an impact on Piltel’s unaudited consolidated financial statements.

Amendment to PAS 32, “Financial Instruments: Presentation” and PAS 1, “Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation”

These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity’s net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder’s right to a pro rata share of the entity’s net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. The adoption of these amendments to PAS 32 and PAS 1 did not have an impact on Piltel’s unaudited consolidated financial statements.

Philippine Interpretation IFRIC 13, “Customer Loyalty Programmes”

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 realized in income over the period that the award credits are redeemed or expired. The adoption of this new interpretation did not have a significant impact on Piltel’s unaudited consolidated financial statements.

Improvements to PFRSs

In May 2008, the International Accounting Standards Board issued the first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard which are all effective beginning January 1, 2009.

PAS 1, “Presentation of Financial Statements”

Assets and liabilities classified as held-for-trading are not automatically classified as current in the statement of financial position.

PAS 16, “Property, Plant and Equipment”

The amendment replaces the term ‘net selling price’ with ‘fair value less costs to sell’, to be consistent with PFRS 5 and PAS 36, “*Impairment of Asset*”. Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held-for-sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

PAS 23, “Borrowing Costs”

Revises the definition of borrowing costs to consolidate the types of items that are considered components of ‘borrowing costs’, i.e., components of the interest expense calculated using the effective interest rate method.

PAS 28, “Investment in Associates”

If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

PAS 36, “Impairment of Assets”

When discounted cash flows are used to estimate ‘fair value less cost to sell’, additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’.

PAS 39, “Financial Instruments: Recognition and Measurement”

Changes in circumstances relating to derivatives – specifically derivatives designated or re-designated as hedging instruments after initial recognition are not reclassifications. When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, “*Insurance Contracts*”, this is a change in circumstance, not a reclassification. This amendment removes the reference to a ‘segment’ when determining whether an instrument qualifies as a hedge. It also requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

PAS 40, “Investment Properties”

Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

The adoption of above-mentioned omnibus amendments to PFRS did not have an impact on Piltel’s unaudited consolidated financial statements.

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 assets' 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 available 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.

Asset Retirement Obligations

Piltel 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 the consolidated statement of income 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 year 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 year 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.

Inventories

Inventories, which include cellular phone units and SIM packs, are valued at the lower of cost or net realizable value taking into account expected revenues from the sale of packages comprising a cellular phone unit and SIM pack.

Cost is determined using weighted average cost method. Net realizable value is either the estimated selling price in the ordinary course of business less the estimated cost to sell or asset replacement cost.

Impairment of Non-Financial Assets

Piltel assesses at each reporting date whether there is an indication that the property and equipment and investment properties 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 years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charged is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial Assets

Initial recognition

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Piltel determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchases) are recognized on the trade date, i.e., the date that Piltel commits to purchase or sell the asset.

Piltel's financial assets include cash and short-term deposits, trade and other receivables and quoted and unquoted debt and equity securities.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held-for-trading and financial assets designated upon initial recognition 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. This category includes derivative financial instruments Piltel entered into that do not meet the hedge accounting criteria as defined by PAS 39. Derivatives, including separated embedded derivatives are classified as held-for-trading unless they are designated as effective hedging instruments. 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 or recognizing gains or losses on them on a different basis; or (ii) the assets or liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset or liabilities contains an embedded derivative that would need to be separately recorded. Financial assets at fair value through profit or loss are carried in the consolidated balance sheet at fair value with gains or losses recognized in the consolidated statement of income. Piltel has not designated any financial assets at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in Piltel's consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on loans and receivables is recognized as "Interest income" in the consolidated statement of income. Loans and receivables include Piltel's cash and cash equivalents, short-term investments and trade and other receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when Piltel has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process. Interest earned on held-to-maturity investments is recognized as "Interest income" in the consolidated statement of income. Held-to-maturity investments include investment in debt securities.

Available-for-sale financial assets

Available-for-sale financial assets are 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 may be 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 recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss recorded in equity is recognized in the consolidated statement of income. Available-for-sale financial assets pertain to investment in club shares.

Impairment of Financial Assets

Piltel assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortized cost

For financial assets which are carried at amortized cost, Piltel first assesses individually 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 an 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 assess them for impairment. 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 of impairment.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Receivables together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to Piltel. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial assets

For available-for-sale financial assets, Piltel assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment 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 investment 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 their 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. Future interest income is based on the reduced carrying amount of the asset and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases 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.

Investment in Debt Securities

Investment in debt securities are government securities which are carried at amortized cost using the effective interest method. Interest from these securities are recognized as “Interest income” in the consolidated statement of income.

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

Initial recognition

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Piltel determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Piltel’s financial liabilities include trade and other payables and finance lease obligations.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes 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. This category includes derivative financial instruments that do not meet the hedge accounting criteria as defined by PAS 39.

Gains or losses on liabilities held-for-trading are recognized in the consolidated statement of income.

Pitxel did not have any financial liabilities at fair value through profit or loss as at June 30, 2009 and December 31, 2008.

Loans and borrowings

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments 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 financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest method.

Day 1 profit or loss

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, Pitxel recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) 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, Pitxel determines the appropriate method of recognizing the "Day 1" profit or loss amount.

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: (1) the rights to receive cash flows from the asset have expired; or (2) Pitxel has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) Pitxel has transferred substantially all the risks and rewards of the asset, or (b) Pitxel has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Piltel has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of Piltel’s continuing involvement in the asset.

Continuing involvement that takes the form of a 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.

When 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 has expired.

When 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.

Treasury Shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of Piltel’s own equity instruments. Any difference between the carrying amount and the consideration is recognized as part of additional paid-in capital.

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 discounted using a current pre-tax rate that reflects, 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 interest expense.

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.

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 the consolidated statement of income. Total finance lease obligations amounted to ₱42.5 million as at June 30, 2009 and December 31, 2008 (see *Note 3 – Management’s Use of Judgments, Estimates and Assumptions*, *Note 17 – Finance Lease Obligation*, *Note 20 – Contractual Obligations* and *Note 21 – Contingencies*).

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 of the leased asset at the end of the lease term.

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

Piltel as a lessor

Leases where Piltel 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.

Lease income received in advance is recorded as unearned income in the consolidated balance sheet and recognized as rent income when the service is rendered over the applicable lease term.

Revenue Recognition

Revenues for services are stated at amounts invoiced to customers, excluding value-added tax (VAT) or overseas communication tax, where applicable. Piltel provides wireless and, until June 2008, provided fixed line communication 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. Piltel does not provide the customers with the right to a refund.

The following specific recognition criteria must also be met before revenue is recognized:

Service revenues

Subscriptions

Piltel 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 year 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.

Unused and/or unexpired portion of the prepaid loads is presented as “Unearned revenue on sale of prepaid cards” in the current liabilities section of the consolidated balance sheet.

Incentives

Piltel 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 SIM packs and cellular handsets 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 years 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 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 year 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 consolidated 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.

Events After the End of the Reporting Period

Post quarter-end events that provide additional information about Piltel's financial position at the end of the reporting period (adjusting events) are reflected in the unaudited consolidated financial statements. Post quarter-end events that are not adjusting events are disclosed in the notes to the unaudited consolidated financial statements when material.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to June 30, 2009

The Company will adopt the following revised standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these revised standards and amendments to PFRS to have a significant impact on Piltel's unaudited consolidated financial statements. Following are the new PFRS and Philippine Interpretations which will be effective subsequent to June 30, 2009:

Effective in 2010

PFRS 5, "Non-current Assets Held-for-Sale and Discontinued Operations"

When a subsidiary is held-for-sale, all of its assets and liabilities will be classified as held-for-sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

PFRS 3 (Revised), "Business Combinations" and PAS 27, "Consolidated and Separate Financial Statements"

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss

of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PFRS 3 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests. Revised PAS 27 must be applied retrospectively subject to certain exceptions. The revised standards will supersede the existing PFRS 3 and PAS 27, respectively, effective for annual periods beginning on or after July 1, 2009.

Amendment to PAS 39, "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"

Amendment to PAS 39 will be effective for annual periods beginning on or after July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Philippine Interpretation IFRIC 17, "Distributions of Non-Cash Assets to Owners"

This interpretation provides guidance on non-reciprocal distribution of assets by an entity to its owners acting in their capacity as owners, including distributions of non-cash assets and those giving the shareholders a choice of receiving non-cash assets or cash, provided that, (a) all owners of the same class of equity instruments are treated equally; and (b) the non-cash assets distributed are not ultimately controlled by the same party or parties both before and after the distribution, and as such, excluding transactions under common control. This interpretation is applied prospectively and is applicable for annual periods beginning on or after July 1, 2009 with early application permitted.

Philippine Interpretation IFRIC 18, "Transfers of Assets from Customers"

Philippine Interpretation IFRIC 18 provides guidance to all entities that receive from customers an item of property, plant and equipment or cash for the acquisition or construction of such item and such item is used to connect the customer to a network or to provide ongoing access to a supply of goods or services, or both. The interpretation requires an assessment of whether an item of property, plant and equipment or cash for the acquisition or construction of such item meets the definition of an asset. If the terms of the agreement are within the scope of this interpretation, a transfer of an item of property, plant and equipment would be an exchange for dissimilar goods or services. Consequently, the exchange is regarded as a transaction which generates revenue. This interpretation is to be applied prospectively to transfer of assets from customers received in periods beginning on or after July 1, 2009. Entities may however choose to apply this interpretation to earlier periods, provided valuations can be obtained at the time the transfer occurred. Piltel is still in the process of assessing the impact of this new interpretation in its unaudited consolidated financial statements upon adoption.

Improvement to PFRS

PFRS 5, "Non-current Assets Held-for-Sale and Discontinued Operations"

When a subsidiary is held-for-sale, all of its assets and liabilities will be classified as held-for-sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

Effective 2012

Philippine Interpretation IFRIC 15, "Agreement for Construction of Real Estate"

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, "Construction Contracts", or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

3. Management's Use of Judgments, Estimates and Assumptions

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

Judgments

In the process of applying Piltel's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the unaudited consolidated financial statements within the next financial year as discussed below.

Evaluating Lease Commitments

Piltel as Lessee

Piltel has determined that the lessor retains all the significant risks and rewards of ownership on the lease of certain facilities because the lease agreements do not transfer to Piltel the ownership over the assets at the end of the lease term and do not provide Piltel with a bargain purchase option over the leased assets and so accounts for the contracts as operating lease.

Piltel has likewise determined that it retains all the significant risks and rewards of ownership on the lease of certain facilities for public call office stations and so accounts for the contract as finance lease.

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 because the lease agreements do not transfer ownership of the assets to the lessee at the end of the lease term and do not give the lessee a bargain purchase option over the assets 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 judgments. 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, 2009 amounted to ₱21,767.2 million and ₱1,220.1 million, respectively; while the total fair values of financial assets

and liabilities as at December 31, 2008 amounted to ₱21,232.4 million and ₱813.0 million, respectively (see *Note 22 – 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 21 – Contingencies*).

As at June 30, 2009 and December 31, 2008, 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 recognized in the consolidated financial statements within the next financial year are discussed as follows:

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, 2009 and December 31, 2008 amounted to ₱1,909.3 million and ₱2,071.5 million, respectively (see *Note 8 – Property and Equipment*).

Impairment of Property and Equipment

PFRS requires that an impairment review be performed when certain impairment indicators (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are present. If any such indication exists, Piltel makes an estimate of the recoverable amount of assets such as property and equipment.

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. Piltel did not recognize any impairment loss for the six months ended June 30, 2009 and 2008.

The carrying values of property and equipment, net of accumulated depreciation and amortization, as at June 30, 2009 and December 31, 2008 amounted to ₱1,909.3 million and ₱2,071.5 million, respectively (see *Note 8 – Property and Equipment*).

Fair Value of 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, 2009 and December 31, 2008 amounted to ₱416.7 million (see *Note 9 – Investment Properties*).

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 in the future.

Total deferred income tax assets recognized in the unaudited consolidated balance sheet amounted to ₱81.0 million and ₱85.5 million as at June 30, 2009 and December 31, 2008, 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, 2009 and 2008. Provision for doubtful accounts for discontinued operations for the six months ended June 30, 2009 and 2008 amounted to nil and ₱2.8 million, respectively. Trade and other receivables, net of impairment, amounted to ₱9,373.8 million and ₱8,642.3 million as at June 30, 2009 and December 31, 2008, respectively (see *Note 6 – Discontinued Operations* and *Note 13 – 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. Asset retirement obligations amounted to ₱1.6 million and ₱1.4 million as at June 30, 2009 and December 31, 2008, respectively (see *Note 22 – 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 in material adjustments in future years.

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, until June 2008, derived its revenues also from 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 segment assets and liabilities, results of operations and cash flows of Piltel's reportable business segments as at June 30, 2009 and December 31, 2008 and for the six months ended June 30, 2009 and 2008, are as follows:

	Wireless	Fixed Line (Discontinued Operations)	Consolidated
	<i>(In Million Pesos)</i>		
As at and for the six months ended June 30, 2009			
(Unaudited)			
Revenues			
Service revenues <i>(Note 6)</i>	8,598.6	–	8,598.6
Sale of SIM packs and cellular handsets	137.4	–	137.4
Total revenues	8,736.0	–	8,736.0
Results			
Income before income tax <i>(Note 6)</i>	8,700.9	–	8,700.9
Provision for income tax <i>(Note 5)</i>	1,706.6	–	1,706.6
Net income for the year	6,994.3	–	6,994.3
Assets			
Segment assets	24,323.8	–	24,323.8
Deferred income tax assets <i>(Notes 3 and 5)</i>	81.0	–	81.0
Total assets	24,404.8	–	24,404.8
Liabilities			
Segment liabilities	2,811.6	–	2,811.6
Cash flows			
Net cash provided by (used in):			
Operating activities <i>(Note 6)</i>	5,884.6	–	5,884.6
Investing activities <i>(Note 6)</i>	4,504.8	–	4,504.8
Financing activities	(6,371.4)	–	(6,371.4)
Other segment information			
Capital expenditures	22.4	–	22.4
Depreciation and amortization <i>(Note 8)</i>	184.2	–	184.2
For the six months ended June 30, 2008			
Revenues			
Service revenues <i>(Note 6)</i>	8,171.0	228.5	8,399.5
Sale of SIM packs and cellular handsets	162.0	–	162.0
Total revenues	8,333.0	228.5	8,561.5
Results			
Income before income tax <i>(Note 6)</i>	7,831.0	62.0	7,893.0
Provision for income tax <i>(Note 5)</i>	2,688.5	–	2,688.5
Net income for the year	5,142.5	62.0	5,204.5
Cash flows			
Net cash provided by (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)

	Wireless	Fixed Line (Discontinued Operations)	Consolidated
	<i>(In Million Pesos)</i>		
Other segment information			
Capital expenditures	758.3	34.8	793.1
Depreciation and amortization <i>(Note 8)</i>	211.4	19.3	230.7
As at December 31, 2008 (Audited)			
Assets			
Segment assets	23,958.8	–	23,958.8
Deferred income tax assets <i>(Notes 3 and 5)</i>	85.5	–	85.5
Total assets	24,044.3	–	24,044.3
Liabilities			
Segment liabilities	3,071.2	–	3,071.2

* Discontinued operations are shown separately in the consolidated statements of income as a one-line item “Net income from discontinued operations” (see *Note 6 – Discontinued Operations*).

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

5. Income Taxes

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

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	<i>(In Million Pesos)</i>	
Deferred income tax assets (liabilities) on:		
Unearned revenue on sale of prepaid cards	56.6	60.1
Investment properties	19.2	20.4
Unrealized foreign exchange gains	–	(0.3)
Others	5.2	5.3
	81.0	85.5

Provision for income tax consists of:

	For the six months ended June 30,	
	2009	2008
	(Unaudited)	
	<i>(In Million Pesos)</i>	
Current	1,701.9	1,505.5
Deferred	4.7	1,183.0
	1,706.6	2,688.5

Piltel’s current income tax provision for the six months ended June 30, 2009 and 2008 pertain to regular corporate income tax (RCIT). For the six months ended June 30, 2009, Piltel availed of the optional standard deduction (OSD) method in computing its net taxable income. Meanwhile, for same period in 2008, Piltel used the itemized deduction method since the OSD method was not yet available at that time.

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,	
	2009	2008
(Unaudited)		
<i>(In Million Pesos)</i>		
Provision for tax at statutory tax rate	2,610.3	2,762.5
Tax effects of:		
Difference between OSD and itemized deductions	(950.1)	–
Tax rate adjustment	–	(0.4)
Income subject to final tax, non-taxable income and non-deductible expenses	(69.1)	(73.6)
Net changes in unrecognized deferred tax assets	115.5	–
Actual provision for income tax	1,706.6	2,688.5

6. Discontinued Operations

On June 4, 2008, the NTC approved the transfer of Piltel’s LEC asset to PLDT. These assets were the subject of the LEC Asset Sale and Purchase Agreement dated December 4, 2007 between Piltel and PLDT (see *Note 19 – Related Party Transactions*), which covers the exchanges being managed by PLDT and PLDT Subic Telecom, Inc. (Subictel). PLDT paid a total of ₱866.9 million (including VAT and net of tax withheld) to Piltel. Correspondingly, all the LEC assets and liabilities relating to the transfer were removed from Piltel’s books. Operations of the LEC business in 2008 resulted in a net income of ₱62.0 million presented in the consolidated statement of income as “Net Income from Discontinued Operations”.

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,			
	2009		2008		2009		2008	
(Unaudited)				(Unaudited)				
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
<i>(In Million Pesos, Except Per Share Amounts)</i>				<i>(In Million Pesos, Except Per Share Amounts)</i>				
Net income for the period (<i>Note 4</i>)	6,994.3	6,994.3	5,204.5	5,204.5	3,745.5	3,745.5	2,746.9	2,746.9
Dividends on preferred stock (<i>Note 16</i>)	(0.3)	–	(0.6)	–	(0.1)	–	(0.3)	–
Net income applicable to common stock	6,994.0	6,994.3	5,203.9	5,204.5	3,745.4	3,745.5	2,746.6	2,746.9
Net income for the period from continuing operations (<i>Note 4</i>)	6,994.3	6,994.3	5,142.5	5,142.5	3,745.5	3,745.5	2,752.0	2,752.0
Dividends on preferred stock (<i>Note 16</i>)	(0.3)	–	(0.6)	–	(0.1)	–	(0.3)	–
Net income from continuing operations applicable to common stock	6,994.0	6,994.3	5,141.9	5,142.5	3,745.4	3,745.5	2,751.7	2,752.0
Net income from discontinued operations (<i>Note 6</i>)	–	–	62.0	62.0	–	–	(5.1)	(5.1)

(Forward)

	For the six months ended June 30,				For the three months ended June 30,			
	2009		2008		2009		2008	
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	<i>(In Million Pesos, Except Per Share Amounts)</i>				<i>(In Million Pesos, Except Per Share Amounts)</i>			
Common shares at beginning of year <i>(Note 16)</i>	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 <i>(Note 16)</i>	-	19.4	-	29.2	-	19.4	-	29.2
Common shares, adjusted for dilution	11,771.7	11,791.1	11,771.7	11,800.9	11,771.7	11,791.1	11,771.7	11,800.9
Treasury shares at beginning of year	(46.6)	(46.6)	-	-	(46.6)	(46.6)	-	-
Weighted average of 13,414,000 shares repurchased in January	(13.4)	(13.4)	-	-	(13.4)	(13.4)	-	-
Weighted average of 25,000,000 shares repurchased in March	(16.6)	(16.6)	-	-	(16.6)	(16.6)	-	-
Weighted average number of common shares, net of treasury shares	11,695.1	11,714.5	11,771.7	11,800.9	11,695.1	11,714.5	11,771.7	11,800.9
Earnings per common share	0.5980	0.5971	0.4421	0.4410	0.3203	0.3197	0.2334	0.2328
Earnings per common share from continuing operations	0.5980	0.5971	0.4368	0.4358	0.3203	0.3197	0.2338	0.2332
Earnings per common share from discontinued operations	-	-	0.0053	0.0052	-	-	(0.0004)	(0.0004)

Basic Earnings Per Share (EPS) is calculated by dividing net income 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 excluding the weighted average number of common shares held as treasury shares, and 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	Telecommunications 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
At December 31, 2008 (Audited)						
Cost	83.6	166.6	3,438.7	608.4	1.6	4,298.9
Accumulated depreciation and amortization	–	(150.4)	(1,472.5)	(604.5)	–	(2,227.4)
Net book value (Note 3)	83.6	16.2	1,966.2	3.9	1.6	2,071.5
For the Period Ended June 30, 2009 (Unaudited)						
Opening net book value	83.6	16.2	1,966.2	3.9	1.6	2,071.5
Additions	–	–	22.0	0.5	(0.1)	22.4
Disposals/retirement:						
Cost	–	(0.6)	(2.8)	(47.5)	–	(50.9)
Accumulated depreciation and amortization	–	0.6	2.3	47.6	–	50.5
Reclassification						
Cost	–	–	1.5	–	(1.5)	–
Depreciation and amortization	–	(0.6)	(182.4)	(1.2)	–	(184.2)
Net book value at end of period (Note 3)	83.6	15.6	1,806.8	3.3	–	1,909.3
At June 30, 2009 (Unaudited)						
Cost	83.6	166.0	3,459.4	561.4	–	4,270.4
Accumulated depreciation and amortization	–	(150.4)	(1,652.6)	(558.1)	–	(2,361.1)
Net book value (Note 3)	83.6	15.6	1,806.8	3.3	–	1,909.3

Telecommunications Equipment

Piltel has GSM assets with carrying value of ₱1,837.1 million and ₱1,963.9 million as at June 30, 2009 and December 31, 2008, respectively. The GSM network assets were purchased in connection with the Omnibus Service Agreement (OSA) between Piltel and Smart (see *Note 19 – Related Party Transactions*).

Estimated Useful Lives

The useful lives of the assets are estimated as follows:

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

9. Investment Properties

This account consists of:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	<i>(In Million Pesos)</i>	
Beginning balance	416.7	444.7
Retirement	–	(42.0)
Gain on fair value adjustment	–	14.0
Ending balance	416.7	416.7

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 19 – Related Party Transactions*). Rental income from investment properties amounted to ₱4.5 million and ₱4.4 million for the six months ended June 30, 2009 and 2008. Piltel did not incur any significant expenses on these properties for the six months ended June 30, 2009 and 2008.

Investment properties are stated at fair values, which have 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, 2009 (Unaudited)	December 31, 2008 (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
	–	–
Available-for-sale investments	12.6	12.8
Other noncurrent assets	0.4	0.4
	13.0	13.2

11. Cash and Cash Equivalents

This account consists of:

	June 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
	<i>(In Million Pesos)</i>	
Cash on hand and in banks	20.2	17.0
Temporary cash investments	9,238.6	5,223.8
	9,258.8	5,240.8

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 and earn interest at the prevailing short-term investment rates. Temporary cash investments beyond three months but less than one year are classified separately as short-term investments in the consolidated balance sheet. Interest income earned from cash and cash equivalents and short-term investments for the six months ended June 30, 2009 and 2008 amounted to ₱209.3 million and ₱206.1 million, respectively.

12. Investment in Debt Securities

This account consists of:

	June 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
	<i>(In Million Pesos)</i>	
FPUC exchangeable note	2,000.0	-
Government securities:		
Treasury bills	308.7	1,008.0
Fixed rate treasury notes	-	647.7
Zero coupon bonds	13.2	-
	2,321.9	1,655.7

Piltel purchased the FPUC exchangeable note as part of the Meralco shares acquisition transaction. The note was exchanged into 22.2 million shares of Meralco on July 14, 2009 (see *Note 1 – Corporate Information*).

The T-Bills and zero coupon bonds are maturing in July and September 2009. Interest income recognized for the six months ended June 30, 2009 and 2008 amounted to ₱21.6 million and nil, respectively.

13. Trade and Other Receivables

This account consists of receivables from:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	<i>(In Million Pesos)</i>	
Smart (Note 19)	9,236.5	8,416.8
Dealers	13.2	15.3
Others	124.1	210.2
	9,373.8	8,642.3

Dealers' and other receivables are noninterest-bearing and are generally due within 30 to 60 days.

The aging analysis of trade and other receivables are as follows:

	Total	Neither past due nor impaired - Current	Past due but not impaired - Over 90 days
	<i>(In Million Pesos)</i>		
At June 30, 2009 (Unaudited)			
Smart (Note 19)	9,236.5	9,236.5	-
Dealers	13.2	-	13.2
Others	124.1	107.4	16.7
	9,373.8	9,343.9	29.9
At December 31, 2008 (Audited)			
Smart (Note 19)	8,416.8	8,416.8	-
Dealers	15.3	-	15.3
Others	210.2	193.5	16.7
	8,642.3	8,610.3	32.0

14. Inventories

This account consists of:

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	<i>(In Million Pesos)</i>	
Cellular phone units and SIM packs:		
At net realizable value	62.4	77.3
At cost	71.3	86.3
At lower of cost or net realizable value	62.4	77.3

15. Prepayments

This account consists of:

	June 30, 2009 (Unaudited)		December 31, 2008 (Audited)	
	Noncurrent	Current	Noncurrent	Current
	<i>(In Million Pesos)</i>			
Deferred input VAT	85.2	55.6	83.4	72.5
Prepayments	–	19.3	–	12.8
Taxes withheld	–	7.8	–	4.5
	85.2	82.7	83.4	89.8

16. Equity

Preferred stock and common stock consist of:

	June 30, 2009 (Unaudited)		December 31, 2008 (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
Series C	–	–	5.2	10.4
Series D	–	–	0.1	0.2
	–	–	7.2	14.4
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 (Note 7)	11,771.7	11,771.7	11,771.7	11,771.7
Outstanding (Note 7)	11,686.7		11,725.1	
Treasury Stock	85.0	626.3	46.6	344.1

Preferred Stock

Piltel's Class I Series A, C and D preferred shares were redeemed on May 3, 2009 at a total cost of ₱14.4 million. The Class I preferred shares issued as Series A were entitled to an annual cash dividend of up to ₱124,600; those issued as Series C and Series D shares were entitled to annual cash dividend of 10 percent of the par value. Series A, C and D shares were convertible into common shares of Piltel.

Common Stock

On November 3, 2008, the BOD approved a Share Buyback Program of up to 58 million shares. The buyback was done through the trading facilities of the PSE. As at December 31, 2008, Piltel has already purchased 44,586,000 shares at a cost of ₱308.1 million under this program. In January 2009, Piltel completed the repurchase of the 58 million shares earmarked for the Share Buyback Program at a total cost of ₱402.8 million. On March 2, 2009, Piltel's BOD approved an increase in the number of common shares to be repurchased under the Share Buyback Program of up to 25 million shares, through open market purchases, block trades or other modes subject to compliance with applicable laws, rules and regulations. The BOD took into account the success of the initial Share Buyback Program which was completed in three months as well as the continued weakness in the equities market. As at March 9, 2009, Piltel has completed the repurchase of the 25 million shares at a total cost of ₱187.5 million. Shares repurchased under the Share Buyback Program totaled 83 million at an aggregate cost of ₱590.3 million.

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. On March 30, 2007, Piltel paid the remaining convertible bonds including accrued interest. As at June 30, 2009 and December 31, 2008, there are no more outstanding bonds convertible into common stock.

Dividends Declared

On August 4, 2008, Piltel's BOD declared an interim cash dividend of ₱0.43 per share of common stock or ₱5,061.1 million to holders of record as of August 15, 2008, which was paid on September 12, 2008. On March 2, 2009, Piltel declared final cash dividend of ₱0.52 per share or ₱6,077.1 million to common shareholders of record as at March 16, 2009, and paid on March 31, 2009. Total dividends declared on common shares amounted to ₱0.95 per share, representing a payout of approximately 100 percent of 2008 earnings per share.

On December 5, 2008, Piltel's BOD declared cash dividends on its Class I Series A, C and D preferred shares in the total amount of ₱1.2 million paid on January 26, 2009. On April 3, 2009, Piltel declared final dividends of ₱399 thousand on its preferred shares representing dividends from January 1 to May 3, 2009, which was paid on May 3, 2009 together with the redemption price of the preferred shares.

17. 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 originally 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 2 – Summary of Significant Accounting Policies and Practices* and *Note 21 – Contingencies*).

18. Trade and Other Payables

This account consists of:

	June 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
	<i>(In Million Pesos)</i>	
Accounts payable (<i>Notes 19, 20 and 22</i>)	422.0	507.3
Accruals for:		
Selling and promotions	383.2	337.4
Taxes, licenses and fees	190.1	124.4
Rent, utilities and maintenance	107.6	102.3
Interest on financial liabilities (<i>Note 17</i>)	20.8	18.1
Others	493.0	93.7
	1,616.7	1,183.2

Trade and other payables are noninterest-bearing and are generally due in 30 days (see *Note 20 – Contractual Obligations*).

19. Related Party Transactions

In the ordinary course of business, Piltel has transactions with 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 Value-Added Services (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, 2009, the carrying value of GSM network assets purchased by Piltel under the OSA amounted to ₱1,837.1 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. The revenue sharing arrangement remained at 80%-20% in favor of Piltel in 2008. 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.

On January 26, 2009, Piltel's BOD confirmed the amendment of Piltel's revenue-sharing arrangement with Smart beginning January 1, 2009 until December 31, 2010. The review of the revenue-sharing arrangement was undertaken at the request of Smart in the context of the changed market circumstances. The growing popularity of "bucket-price" packages, which were introduced in 2006, has altered Piltel's revenue mix and resulted in reduced yields per SMS and minute. This shift, coupled with increased costs arising from network expansion and upgrades to support a much larger subscriber base, has resulted in Smart's inability to recover its related costs to service Piltel's growing subscriber base with its 20% share of Piltel's revenues. The revised revenue share ratio is expected to allow Smart to substantially recover its costs while having a minimal negative impact on Piltel's profits in the face of *Talk 'N Text's* growing subscriber base. The confirmation came after an independent advisor, engaged to advise an independent Board Committee of Piltel, found a 70%-30% revenue share ratio in favor of Piltel to be reasonable for the two-year period, under current market conditions.

Smart's share in Piltel's GSM net revenues under the foregoing agreements amounted to ₱4,523.0 million and ₱2,473.9 million for the six months ended June 30, 2009 and 2008, 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 (included as part of "Rent income" in the consolidated statements of income) under this agreement amounted to nil and ₱201.1 million for the six months ended June 30, 2009 and 2008. Since December 31, 2008, the balance of the unearned co-location fees has been fully amortized.

- c. 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 ₱239.6 million and ₱136.8 million for the six months ended June 30, 2009 and 2008, respectively.

Outstanding receivable from Smart amounted to ₱9,236.5 million and ₱8,416.8 million, net of lease liability of ₱54.0 million and ₱119.9 million as at June 30, 2009 and December 31, 2008, respectively (see *Note 13 – Trade and Other Receivables*).

Compensation of Key Management Personnel of the Company

None of the officers received compensation from Piltel for the six months ended June 30, 2009 and 2008. Piltel's directors do not receive compensation from Piltel, except for per diem of ₱50,000 for each BOD meeting and ₱35,000 for each committee meeting attended. In 2008, Piltel's directors received ₱15,000 for each BOD meeting attended.

20. Contractual Obligations

The following table summarizes the maturity profile of Piltel's undiscounted financial liabilities as at June 30, 2009 and December 31, 2008:

	June 30, 2009 (Unaudited)			December 31, 2008 (Audited)		
	On demand	Less than three months	Total	On demand	Less than three months	Total
	(In Million Pesos)					
Finance lease (Notes 3 and 17)	42.5	–	42.5	42.5	–	42.5
Unconditional purchase obligation	108.7	–	108.7	90.7	–	90.7
Various trade and other obligations:						
Suppliers and contractors	144.4	–	144.4	200.8	–	200.8
Carriers	16.5	–	16.5	16.5	–	16.5
Related parties	12.1	–	12.1	1.9	–	1.9
Dividends payable	–	9.4	9.4	–	6.6	6.6
Accrued expenses:						
Selling and promotions	383.2	–	383.2	337.4	–	337.4
Rent, utilities and maintenance	107.6	–	107.6	102.1	–	102.1
Interest on financial liabilities	20.8	–	20.8	18.1	–	18.1
Others	483.6	–	483.6	87.1	–	87.1
Total financial liabilities	1,319.4	9.4	1,328.8	897.1	6.6	903.7

21. 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. Local Franchise Tax

In 2004, Piltel secured a favorable decision from a trial court involving the local franchise tax in Makati City. In the case entitled "*Pilipino Telephone Corporation, vs. City of Makati and Andrea Pacita S. Guinto*" (*Piltel vs. City of Makati*) (Civil Case No. 01-1760), the Makati Regional Trial Court rendered its Decision dated December 10, 2002 declaring Piltel exempt from the payment of local franchise and business taxes. The trial court ruled that the legislative franchise of Piltel, R.A. 7293, granting the corporation exemption from local franchise and business taxes took effect after R.A. 7160 or the Local Government Code which removed all prior tax exemptions granted by law or other special law. The trial court's decision was affirmed by the Court of Appeals in its Decision dated July 12, 2004 and then subsequently, the Supreme Court denied the appeal of the City of Makati in its Entry of Judgment dated October 13, 2004. The Supreme Court ruled that the City of Makati, failed to sufficiently show that the Court of Appeals committed any reversible error in the questioned judgment to warrant the exercise the Supreme Court's discretionary appellate jurisdiction.

On March 9, 2009, Piltel received a letter from the City of Makati on alleged outstanding franchise tax obligations covering the period from 1995-2009. Piltel will formally reply and reiterate its local franchise tax exemption as confirmed in *Piltel vs. City of Makati*.

b. Finance Lease

Piltel has an existing finance lease agreement for the Palawan Telecommunications System of the MTPO with the DOTC (see *Note 2 – Summary of Significant Accounting Policies and Practices* and *Note 17 – 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 February 13, 2009, alleging an unpaid amount of ₱30.1 million (inclusive of interest and penalty charges) as at January 31, 2009. 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. Accordingly, the related finance lease obligation is classified as a current liability in the consolidated balance sheets.

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.

22. Financial Assets and Liabilities

Piltel has no significant financial liabilities as at June 30, 2009 and December 31, 2008. Piltel has various other financial assets and liabilities such as cash and cash equivalents, short-term investments and trade receivables, as well as trade payables, 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, 2009 and December 31, 2008:

	Loans and receivables	Held-to- maturity	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, 2009 (Unaudited)							
Assets							
Property and equipment - net	–	–	–	–	–	1,909.3	1,909.3
Investment properties	–	–	–	–	–	416.7	416.7
Deferred income tax assets - net	–	–	–	–	–	81.0	81.0
Prepayments - net of current portion	–	–	–	–	–	85.2	85.2
Investments and other noncurrent assets	–	–	12.6	–	12.6	0.4	13.0
Cash and cash equivalents	9,258.8	–	–	–	9,258.8	–	9,258.8
Short-term investments	800.0	–	–	–	800.0	–	800.0
Investment in debt securities	2,000.0	321.9	–	–	2,321.9	–	2,321.9
Trade and other receivables - net	9,373.8	–	–	–	9,373.8	–	9,373.8
Inventories	–	–	–	–	–	62.4	62.4
Current portion of prepayments	–	–	–	–	–	82.7	82.7
Total assets	21,432.6	321.9	12.6	–	21,767.1	2,637.7	24,404.8
Liabilities							
Asset retirement obligations	–	–	–	–	–	1.6	1.6
Accounts payable	–	–	–	173.0	173.0	249.0	422.0
Accrued expenses and other current liabilities	–	–	–	995.2	995.2	190.1	1,185.3
Unearned revenue on sale of prepaid cards	–	–	–	–	–	188.6	188.6
Finance lease obligation	–	–	–	42.5	42.5	–	42.5
Dividends payable	–	–	–	9.4	9.4	–	9.4
Income tax payable	–	–	–	–	–	962.2	962.2
Total liabilities	–	–	–	1,220.1	1,220.1	1,591.5	2,811.6
Net assets and liabilities	21,432.6	321.9	12.6	(1,220.1)	20,547.0	1,046.2	21,593.2

	Loans and receivables	Held-to- maturity	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, 2008 (Audited)							
Assets							
Property and equipment - net	–	–	–	–	–	2,071.5	2,071.5
Investment properties	–	–	–	–	–	416.7	416.7
Deferred income tax assets - net	–	–	–	–	–	85.5	85.5
Prepayments - net of current portion	–	–	–	–	–	83.4	83.4
Investments and other noncurrent assets	–	–	12.8	–	12.8	0.4	13.2
Cash and cash equivalents	5,240.8	–	–	–	5,240.8	–	5,240.8
Short-term investments	5,668.1	–	–	–	5,668.1	–	5,668.1
Investment in debt securities	–	1,655.7	–	–	1,655.7	–	1,655.7
Trade and other receivables - net	8,642.3	–	–	–	8,642.3	–	8,642.3
Inventories	–	–	–	–	–	77.3	77.3
Current portion of prepayments	–	–	–	–	–	89.8	89.8
Total assets	19,551.2	1,655.7	12.8	–	21,219.7	2,824.6	24,044.3
Liabilities							
Asset retirement obligations	–	–	–	–	–	1.4	1.4
Accounts payable	–	–	–	219.2	219.2	288.1	507.3
Accrued expenses and other current liabilities	–	–	–	544.7	544.7	124.6	669.3
Unearned revenue on sale of prepaid cards	–	–	–	–	–	201.0	201.0
Finance lease obligation	–	–	–	42.5	42.5	–	42.5
Dividends payable	–	–	–	6.6	6.6	–	6.6
Income tax payable	–	–	–	–	–	1,643.1	1,643.1
Total liabilities	–	–	–	813.0	813.0	2,258.2	3,071.2
Net assets and liabilities	19,551.2	1,655.7	12.8	(813.0)	20,406.7	566.4	20,973.1

The carrying values and the estimated fair values of the financial assets and liabilities as at June 30, 2009 and December 31, 2008 are as follows:

	Carrying Values		Fair Values	
	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
<i>(In Million Pesos)</i>				
Noncurrent financial assets:				
Available-for-sale investments *	12.6	12.8	12.6	12.8
Total noncurrent financial assets	12.6	12.8	12.6	12.8
Current financial assets:				
Cash and cash equivalents				
Cash on hand and in banks	20.2	17.0	20.2	17.0
Temporary cash investments	9,238.6	5,223.8	9,238.6	5,223.8
Short-term investments	800.0	5,668.1	800.0	5,668.1
Investment in debt securities	2,321.9	1,655.7	2,322.0	1,668.4
Trade and other receivables				
Due from affiliates	9,245.9	8,422.7	9,245.9	8,422.7
Dealers, agents and others	127.9	219.6	127.9	219.6
Total current financial assets	21,754.5	21,206.9	21,754.6	21,219.6
Total financial assets	21,767.1	21,219.7	21,767.2	21,232.4
Current financial liabilities:				
Accounts payable				
Suppliers and contractors	144.4	200.8	144.4	200.8
Domestic carriers	16.5	16.5	16.5	16.5
Others	12.1	1.9	12.1	1.9
Accrued and other current liabilities				
Selling and promotions	383.2	337.4	383.2	337.4
Rent, utilities and maintenance	107.6	102.1	107.6	102.3
Interest on financial liabilities	20.8	18.1	20.8	18.1
Others	483.6	87.1	483.6	86.9
Finance lease obligation	42.5	42.5	42.5	42.5
Dividends payable	9.4	6.6	9.4	6.6
Total financial liabilities	1,220.1	813.0	1,220.1	813.0

* Included under "Investments and other noncurrent assets" in the consolidated balance sheets.

There are no material unrecognized financial assets and liabilities as at June 30, 2009 and December 31, 2008.

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.

Available-for-sale investments and investment in debt securities: The fair value is based on quoted market price at balance sheet date.

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 19 – 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 and liquidity 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 P9,236.5 million and P8,416.8 million as at June 30, 2009 and December 31, 2008, 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 plus 1%, on its outstanding receivable based on a MOA between the two parties (see *Note 13 – Trade and Other Receivables* and *Note 19 – Related Party Transactions*). Over the years, regular settlement between the parties has been established.

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, 2009 (Unaudited)	December 31, 2008 (Audited)	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
	<i>(In Million Pesos)</i>			
Available-for-sale investments	12.6	12.8	12.6	12.8
Cash and cash equivalents				
Cash on hand and in banks	20.2	17.0	17.5	14.1
Temporary cash investments	9,238.6	5,223.8	9,234.3	5,221.9
Short-term investments	800.0	5,668.1	800.0	5,667.8
Investment in debt securities	2,321.9	1,655.7	2,321.9	1,655.7
Trade and other receivables				
Due from affiliates	9,245.9	8,422.7	9,245.9	8,422.7
Dealers, agents and others	127.9	219.6	127.9	219.6
Total	21,767.1	21,219.7	21,760.1	21,214.6

⁽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, 2009 (Unaudited)				
Investments available-for-sale	12.6	6.4	6.2	–
Cash and cash equivalents				
Cash on hand and in banks	20.2	–	20.2	–
Temporary cash investments	9,238.6	6,842.6	2,396.0	–
Short-term investments	800.0	800.0	–	–
Investment in debt securities	2,321.9	2,321.9	–	–
Trade and other receivables				
Due from affiliates	9,245.9	9,245.9	–	–
Dealers, agents and others	127.9	127.9	–	–
Total	21,767.1	19,344.7	2,422.4	–
At December 31, 2008 (Audited)				
Investments available-for-sale	12.8	6.6	6.2	–
Cash and cash equivalents				
Cash on hand and in banks	17.0	16.2	0.8	–
Temporary cash investments	5,223.8	5,196.2	27.6	–
Short-term investments	5,668.1	5,383.9	284.2	–
Investment in debt securities	1,655.7	1,655.7	–	–
Trade and other receivables				
Due from affiliates	8,422.7	8,422.7	–	–
Dealers, agents and others	219.6	219.6	–	–
Total	21,219.7	20,900.9	318.8	–

(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; deposits or placements to counterparties with good credit rating or bank standing financial review; and listed shares of stock; and

(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; deposits or placements to counterparties not classified as Class A; and non-listed shares of stock.

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

Piltel 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 Piltel's policy.

Liquidity Risk

Piltel's liquidity profile is managed to be able to finance its operations and capital expenditures and other financial obligations. To cover its financing requirements, Piltel 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. Piltel regularly evaluates available financial products and monitors market conditions for opportunities to enhance yields at acceptable risk levels.

Piltel'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 Piltel's current assets are receivable from affiliates and receivable from dealers with credit terms of less than one month.

As at June 30, 2009 and December 31, 2008, Piltel's current assets amounted to ₱21,899.6 million and ₱21,374.0 million, respectively, while current liabilities are at ₱2,810.0 million and ₱3,069.8 million, respectively.

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

Capital Management

Piltel aims to achieve an optimal capital structure to reduce its cost of capital and maximize shareholder value. These objectives will remain unchanged even with the transformation of Piltel to a holding company from a telecommunications service provider and the reduction of minority interest as a result of Smart's tender offer to Piltel's minority shareholders.

Piltel will continue to implement the dividend policy approved by its BOD, and declare dividend payments to its common shareholders with payout ratios subject to evaluation of Piltel's cashflow requirements.

23. 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, 2009 and 2008.

24. Subsequent Events

Recent NTC Memorandum Circulars

Memorandum Circular No. 03-07-2009, dated July 3, 2009, extended the validity of prepaid loads depending on the value of the load. Prepaid loads with higher values shall have longer validity periods - the shortest validity period is three (3) days while the maximum period is 120 days.

Memorandum Circular No. 05-07-2009, dated July 23, 2009, prescribes six (6) seconds per pulse as the maximum unit of billing for CMTS voice. Operators will be allowed to charge a higher rate for the first two pulses (or 12 seconds) in order to recover set-up costs. Subscribers, however, may still opt to be billed on a per minute basis or to subscribe to unlimited service offerings. The Memorandum requires all CMTS providers to submit their respective proposed rates within 30 days from effectivity of the circular and to make the necessary adjustments to their billing systems within 120 days from effectivity, in order to effect the change in pulsing thereafter.

SUPPLEMENTARY SCHEDULE

PILIPINO TELEPHONE CORPORATION
Aging of Accounts Receivable
June 30, 2009

Type of Accounts Receivable	Total	Current	Over 90 days
I. Trade Receivables			
Dealers	₱ 13.2	₱ -	₱ 13.2
Due From Smart	9,236.5	9,236.5	-
Total Trade Receivables	₱ 9,249.7	₱ 9,236.5	₱ 13.2
II. Non-Trade Receivables			
Other Receivables	₱ 124.1	₱ 107.4	₱ 16.7
Total Accounts Receivable	₱ 9,373.8	₱ 9,343.9	₱ 29.9