



Press release

PILTEL

First Half 2007 Core Net Income up 32% to ₱4.2 billion
Reported Net Income at ₱3.6 Billion
Piltel's Retained Earnings at Positive ₱3.6 Billion
Subscriber Base Passes 8 million

- Core net income up 32% to ₱4.21 billion versus ₱3.18 billion in first half of 2006
- Reported net income for the first half lower at ₱3.56 billion due to higher provision for income tax and additional depreciation charges relating to Piltel's fixed line assets
- EBITDA higher at 23% to ₱6.36 billion from ₱5.16 billion in same period 2006
- Earnings before tax surge 82%
- Retained earnings at positive ₱3.56 billion
- Cellular service revenues increase 27% to ₱6.72 billion compared with ₱5.30 billion in first half of 2006
- Subscriber base now over 8 million; net additions of 985,000 for first six months of 2007
- Dividends on preferred shares declared

Manila, Philippines, 6th August 2007 - Pilipino Telephone Corporation ("Piltel") (PSE: PLTL) today announced its financial results for the first half of 2007, with core net income, before exceptional items, of ₱4.21 billion in the first six months of 2007, up 32% from the ₱3.18 billion recorded for the same period in 2006. Reported net income stood at ₱3.56 billion compared with a net profit of ₱4.51 billion in 2006, due to higher provision for income tax this year (as opposed to an income tax benefit in 2006) and the additional depreciation relating to Piltel's fixed line assets in 2007. Pre-tax earnings surged 82% to ₱5.35 billion for the first half of 2007.

The Company's stockholders' equity was a positive ₱18.13 billion as at 30th June 2007.

With the completion of the quasi-reorganization/equity restructuring in April 2007, the Company is now in a position to pay dividends to its shareholders. From a deficit of ₱22.2 billion as at 31st December 2006, Piltel's retained earnings improved to a positive ₱3.56 billion as at 30th June 2007. As a result, Piltel's Board of Directors declared, earlier today, dividends on its Series A, C, D and J preferred shares and authorized the settlement of the Company's accumulated dividends in arrears accruing to these shares. Series A and D were issued to the cities of Baguio and Olongapo, respectively, with Series A having a fixed dividend of ₱124,600 per annum and Series D having an annual rate of 10%.

Series C were issued to subscribers of Piltel's fixed line business and these shares have an annual dividend rate of 10%. Series J constitutes the largest series of the Class I preferred shares. These shares were issued to PLDT in relation to the Letter of Support executed by PLDT under the terms of Piltel's original debt restructuring and carry an effective dividend rate of 9% per annum. All Class I preferred shares are redeemable at Piltel's option.

The record date for the payment of these accumulated dividends has been set on 20th August 2007 with payment on 3rd September 2007 for Series J shares and payment on 17th September 2007 for Series A, C and D shares. The Company expects to pay a total of ₱2.60 billion relating to the dividends in arrears and another ₱145 million relating to current dividends.

Operating Results

Piltel's total service and non-service revenues in the first six months of 2007 grew 26% to ₱7.42 billion, compared with ₱5.88 billion for the same period in 2006, as a result of the continued growth in revenue contribution from the *Talk 'N Text* subscriber base. Piltel is the Philippines' third largest cellular operator with over 8 million subscribers. *Talk 'N Text* recorded approximately 985,000 net additions in the first six months of 2007.

GSM net service revenues increased by 27% to ₱6.72 billion in the first half of 2007 from ₱5.30 billion in 2006. GSM service revenues make up 96% of Piltel's net service revenues with fixed line service revenues of ₱306 million accounting for the balance of 4%.

SMS continues to be the main driver of the Company's revenues. Data revenues increased by 29%, from ₱3.28 billion in the first six months of 2006 to ₱4.25 billion in 2007. Data revenues make up 63% of GSM revenues.

Piltel's total expenses decreased by 27%, from ₱3.15 billion during the first half of 2006 to ₱2.30 billion in 2007 due mainly to the foreign exchange gain recorded this year compared with a foreign exchange loss, higher interest expense and debt discount amortization last year, partly offset by lower interest income in 2007. With the full prepayment of restructured debts in December 2006 and the full payment of convertible bonds in March 2007, Piltel does not have any significant foreign currency-denominated liabilities which may be subject to revaluation. The debt payment also resulted in the significant reduction in interest and other debt-related expenses.

Cash operating expenses rose by 40% from ₱428 million in the first half of last year to ₱598 million this year. Selling and promotions increased by 81%, as the Company continued to utilize television advertising to solidify its brand equity and introduce its latest offerings.

The cost of handsets and SIM packs sold also increased by ₱185 million, or 71%, to ₱447 million, due mainly to a higher number of handsets and SIM packs sold. Non-service revenues, comprised of proceeds from the sale of handsets and SIM packs, increased correspondingly by 73% - from ₱230 million in the first half of 2006 to ₱398 million in 2007.

Non-cash operating expenses increased by 420%, from ₱279 million in the first six months of 2006 to ₱1.45 billion in 2007, driven by the 475% increase in depreciation expense. The additional depreciation of ₱1.18 billion was a result of the change in the estimated useful lives of certain fixed line assets owing to the continuing upgrade and expansion of the fixed line network.

Piltel also recognized interest income of ₱186 million in the first half of 2007, derived principally from interest-bearing receivables from Smart Communications, Inc (“Smart”), a decrease compared with an interest income of ₱559 million for the same period in 2006. Piltel collected a substantial portion of its receivables from Smart to fund Piltel’s debt prepayment. Piltel’s net receivables from Smart were reduced to ₱4.95 billion as at 30th June 2007 from ₱6.08 billion as at year-end 2006.

Earnings before tax for the period grew 82% to ₱5.35 billion compared with ₱2.95 billion for 2006. However, for the first six months of 2007, Piltel recorded a provision for income tax of ₱1.79 billion, an increase of 215%, compared with an income tax benefit of ₱1.56 billion in 2006 when Piltel still possessed certain deferred tax benefits. The Company’s effective tax rate of 34% now approximates the statutory corporate income tax rate of 35%.

As a result of the increased tax rate, the Company’s reported net income for the first half of 2007 was lower at ₱3.56 billion compared with ₱4.51 billion for 2006. However, core net income was higher at ₱4.21 billion, without the impact of the additional depreciation charges taken in the second quarter of 2007.

Conclusion and Outlook

Piltel President and Chief Executive Officer Napoleon L Nazareno said: “I am pleased to announce that we have declared dividends of approximately ₱3 billion to our preferred shareholders. This amount covers both accumulated and current dividends and will bring us up to date on the payments due these shares. We are also studying various options as to the disposition of these shares as they carry a relatively high dividend rate. These dividend payments are made possible by the continued strength in Piltel’s operating and financial performance and we look forward to sustaining this positive trend for the balance of the year.”

<i>(In million pesos,)</i>	Pilipino Telephone Corporation		
	For the six months ended June 30,		
	2007	2006	% Change
Service revenues	7,025	5,651	24
Non-service revenues	398	230	73
Other income	233	215	8
Total Revenues	7,656	6,096	26
Expenses	2,303	3,150	(27)
Income before tax	5,353	2,946	82
Reported Net income	3,556	4,508	(21)
EBITDA	6,362	5,162	23
Core Net income ^(a)	4,211	3,185	32

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

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

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