SEC Number 21817
FILE Number ____

PHILIPPINE TELEGRAPH AND TELEPHONE CORPORATION
(Company's Full Name)

Spirit of Communications Centre,
106 C. Palanca Jr. St., Legaspi Village, Makati City
(Company's Address)

(632)698-2222 or (632)665-5823
(Telephone Number)

June 30
(Fiscal Year Ending)
(month & day)

Form 17-Q
Form Type

____
Amended Designation (if applicable)

September 30, 2006
Period Ended Date

____
(Secondary License Type and File No.)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2006**

2. Commission Identification Number **21817** 3. BIR Tax Identification No. **470-000-530-631**

4. **Philippine Telegraph and Telephone Corp. (PT&T)**
Exact name of registrant as specified in its charter:

5. **Metro Manila, Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **Spirit of Communication Centre Building, 106 Carlos Palanca Jr. St., Legaspi Village, Makati City** **1229**
Address of principal office Postal Code

8. **(632)698-2222 or (632)665-5823**
Registrant's telephone number, including area code

N/A

9. Former name, former address, and former fiscal year, if changed since last report.

9. Securities registered pursuant to Sections 8 and 12 of the Code, or 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common stock	PhP1.00 par value 799,998,728 shares

11. Are any or all of these securities listed on a Philippine Stock Exchange?
Yes [x] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PSE Common stock

12. Indicate by check mark whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes [ ] No [x]

(b) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

PHILIPPINE TELEGRAPH AND TELEPHONE CORP. (PT&T)
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SEC FORM 17-Q

PART I – FINANCIAL INFORMATION

Item 1: Financial Statements.

The financial statements are filed as part of this SEC From 17-Q.

BALANCE SHEETS
(In PhP thousands)

	September 30, 2006 (Interim - Unaudited)	June 30, 2006 UNAUDITED	VARIANCE	%
ASSETS				
Current Assets				
Cash	1,784	1,687	97	6%
Accounts receivable, net of allowance for D/A	271,211	273,183	(1,972)	-1%
Inventories and supplies	278,928	282,956	(4,028)	-1%
Other current assets	2,658	3,686	(1,028)	-28%
Total Current Assets	**554,580**	**561,512**	**(6,932)**	**-1%**
Noncurrent Assets				
Amounts owed by related parties	263,334	260,434	2,900	1%
Property and equipment at cost	7,268,514	7,459,577	(191,062)	-3%
Investments in shares of stock	1,751	1,751	-	0%
Deposits and other assets	254,759	250,603	4,156	2%
Total Noncurrent Assets	**7,788,358**	**7,972,365**	**(184,007)**	**-2%**
TOTAL ASSETS	**8,342,938**	**8,533,877**	**(190,939)**	**-2%**

LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Notes payable	82,456	79,741	2,716	3%
Trade and other payables	1,541,602	1,524,787	16,815	1%
Total Current Liabilities	**1,624,058**	**1,604,528**	**19,531**	**1%**
Noncurrent Liabilities				
Amounts owed to related parties	83,123	81,334	1,789	2%
Deposits and other noncurrent liabilities	86,861	87,580	(719)	-1%
Total Noncurrent Liabilities	**169,984**	**168,913**	**1,070**	**1%**
Stockholders' Equity				
Capital Stock	2,054,254	2,054,254	-	0%
Deposits for future stock subscriptions	8,737,893	8,737,893	-	0%
Revaluation increment in property	2,095,641	2,095,641	-	0%
Share in revaluation increment in property and equipment of an associate	34,197	34,197	-	0%
Deficit	(6,373,088)	(6,161,549)	(211,539)	3%
Total Stockholders' Equity	**6,548,897**	**6,760,436**	**(211,539)**	**-3%**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**8,342,938**	**8,533,877**	**(190,938)**	**-2%**

STATEMENTS OF INCOME & RETAINED EARNINGS(DEFICIT)
(In PhP thousands, Except Loss Per Share)

	For the Three(3) Months Ended September 30, 2006	September 30, 2005
OPERATING REVENUES	**77,614**	**114,721**
COSTS AND EXPENSES		
Operations	84,756	102,077
Provisions for doubtful accounts	8,359	9,405
EBITDA	**(15,501)**	**3,239**
Depreciation and amortization	195,229	204,683
LOSS FROM OPERATIONS	**210,730**	**201,444**
OTHER CHARGES- Net		
Foreign exchange loss (gain)	(2,027)	78,989
Interest	2,904	77,095
Others	(67)	(5,999)
	810	**150,084**
LOSS BEFORE INCOME TAX	**211,539**	**351,529**
PROVISION FOR INCOME TAX	-	-
NET LOSS	**211,539**	**351,529**
DEFICIT, Beg.	6,161,549	8,375,199
DEFICIT, End	**6,373,088**	**8,726,728**
Loss Per Share		
The loss per share amounts were computed as follows:		
Net Loss	211,539	351,529
Add: Cumulative dividends on preferred shares	1,500	1,500
	213,039	**353,029**
Divided by:		
Weighted average number of common shares issued and outstanding	1,254,999	1,254,999
LOSS PER SHARE		
Basic	**0.17**	**0.28**

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In PhP thousands)

	Preferred Stock	Common Stock	Deposits for Future Stock Subscriptions	Revaluation Increment in Property	Share in Revaluation Increment in Property & Equipt. of Associates	Deficit	Total
Balance as of June 30, 2006	75,000	1,979,254	8,737,893	2,095,641	34,197	(6,161,549)	6,760,437
Net loss for the month						(70,105)	(70,105)
Balance as of July 31, 2006	75,000	1,979,254	8,737,893	2,095,641	34,197	(6,231,653)	6,690,332
Net loss for the month						(70,507)	(70,507)
Balance as of August 31, 2006	75,000	1,979,254	8,737,893	2,095,641	34,197	(6,302,160)	6,619,825
Net loss for the month						(70,928)	(70,928)
Balance as of September 30, 2006	75,000	1,979,254	8,737,893	2,095,641	34,197	(6,373,088)	6,548,897

	Preferred Stock	Common Stock	Deposits for Future Stock Subscriptions	Revaluation Increment in Property	Share in Revaluation Increment in Property & Equipt. of Associates	Deficit	Total
Balance as of June 30, 2005	75,000	1,979,254	4,250,369	2,095,641	34,197	(8,375,199)	59,262
Net loss for the month						(158,619)	(158,619)
Balance as of July 31, 2005	75,000	1,979,254	4,250,369	2,095,641	34,197	(8,533,818)	(99,357)
Net loss for the month						(84,482)	(84,482)
Balance as of August 31, 2005	75,000	1,979,254	4,250,369	2,095,641	34,197	(8,618,300)	(183,839)
Net loss for the month						(108,427)	(108,427)
Balance as of September 30, 2005	75,000	1,979,254	4,250,369	2,095,641	34,197	(8,726,728)	(292,267)

STATEMENT OF CASH FLOWS
AS OF SEPTEMBER 30, 2006 and 2005
(In PhP thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET LOSS	**(211,539)**	**(351,529)**
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:		
Depreciation and Amortization	195,229	204,683
Other Charges	810	150,084
EBITDA	**(15,501)**	**3,239**
Changes in operating assets and liabilities:		
Decrease (increase) in current asset		
Accounts Receivable	1,972	(17,072)
Inventories and Supplies	4,028	3,157
Deposits and Other Assets	(4,156)	2,991
Other Current Assets	1,028	611
	2,873	**(10,314)**
Increase(decrease) in current liabilities		
Trade and Accounts Payable	18,333	28,005
Deposits and Other Liabilities	(333)	(1,008)
Due from (to) Affiliates	(1,110)	(5,176)
	16,891	**21,821**
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**4,263**	**14,746**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property , Plant and Equipment & Others (net)	(4,167)	(15,814)
	(4,167)	**(15,814)**
NET INCREASE(DECREASE) IN CASH	97	(1,068)
CASH BALANCE , BEGINNING	1,687	1,934
CASH BALANCE , ENDING	**1,784**	**866**

AGING SCHEDULE OF ACCOUNTS RECEIVABLE - TRADE
AS OF SEPTEMBER 30, 2006
(In PhP thousands)

SERVICES	CURRENT TO 30 DAYS	31 TO 60 DAYS	61 TO 90 DAYS	OVER 91 DAYS	TOTAL
DATA SERVICES					
BROADBAND	2,561	774	237	8,337	11,909
DATACOM SERVICES	807	428	187	4,771	6,193
RETAIL DATA SERVICES	125	143	134	771	1,173
SUB-TOTAL DATA SERVICES	**3,493**	**1,346**	**559**	**13,878**	**19,275**
VOICE SERVICES					
LEC	1,330	1,577	1,591	20,230	24,728
LONG DISTANCE RETAIL	369	21	81	5,307	5,779
INTERCONNECT	1,180	1,308	1,921	287,046	291,456
SUB-TOTAL VOICE SERVICES	2,880	2,907	3,593	312,583	321,963
TOTAL	**6,372**	**4,253**	**4,152**	**326,461**	**341,239**
LESS: PROVISIONS					87,525
NET REVENUE RECEIVABLES					**253,713**
ADD: OTHER RECEIVABLES, NET					17,497
NET RECEIVABLES					**271,211**

PHILIPPINE TELEGRAPH AND TELEPHONE CORPORATION
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. General

Incorporation:

The Philippine Telegraph & Telephone Company (PT&T), is a diversified telecommunications entity catering to the corporate, small/medium business and residential segments across the nation. It was incorporated on November 14, 1962 and operates under the jurisdiction of National Telecommunications Commission (NTC)

Legislative Franchise:

On June 20, 1964 , the Company was granted a 25-year national legislative franchise, Republic Act (R.A.) No. 4161 for telecommunications activities. An amendment to the franchise was made in 1967 under RA 5048 granting the Company, among others, equal privileges against any competing franchisee. Additional disclosures on the details of the legislative franchise is incorporated in SEC Form 17-A previously submitted.

Listed with Philippine Stock Exchange (PSE):

PT&T is listed with PSE for the trading of the common shares but requested voluntary suspension of trading effective December 13, 2004.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the Philippines and under the historical cost convention, except for property and equipment as of June 30, 1998 which are carried at revalued amounts.

Adoption of New and Revised Accounting Standards

The Company adopted the following new and revised accounting standards, which are based on revised IAS and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The new and revised accounting standards became effective for annual periods beginning on or after January 1, 2005. The Accounting Standards Council (ASC) has renamed the standards that it issues to correspond better to the issuances of IASB. PAS correspond to adopted IAS, while PFRS correspond to adopted IFRS. Previously, standards issued by the ASC were designated as SFAS.

- PAS 19/IAS 19, *Employees Benefits*, requires the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It also requires a company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity.

- PAS 21/IAS 21, *The Effects of Changes in Foreign Exchange Rates*, eliminates option to capitalize foreign exchange adjustments even under severe currency devaluation. It introduces the concept of functional currency and presentation currency; requires companies to determine their functional currency based on certain criteria, and to measure their results and financial position based on such functional currency. It also provides a simplifies translation method (i.e., current rate method) for foreign operations, as well as translation of financial statements from functional currency into any presentation currency.

- PAS 32/IAS 32, *Financial Instruments: Disclosure and Presentation,* covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about an entity's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks, associated with both recognized and unrecognized financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.

- PAS 39/IAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the company's financial assets and financial liabilities. It requires a financial asset or a financial liability to be recognized initially at cost including related transaction costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities designated as fair value through profit and loss and derivatives, which are subsequently measured at fair value.

  PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the balance sheets as either an asset or liability measured at its fair value. It requires that changes in the derivative's fair value be recognized currently in the statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the statements of income, or deferred in the stockholders' equity as "Cumulative translation adjustment." It requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

  Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through income.

- PAS 40/IAS 40, *Investment Property*, establishes the accounting and reporting standards for investment property. Investment property is defined as property (land or a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production or supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business. Under this standard, an entity is permitted to choose either the fair value model or cost model in the subsequent measurement of a qualifying investment property, Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires an investment property to be measured at cost less any accumulated depreciation and impairment losses.

  Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or by the end of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

<u>Revenue Recognition</u>

Operating revenues consist of value of all services provided and are accounted for on the accrual basis. These are as follows:

Local Exchange Carrier (LEC)

LEC offers basic telephone services and long distance (incoming and outgoing domestic and international calls). Revenues derived from these services consist of a fixed monthly contribution rate plus long distance charges based on a charge per minute of usage and installation charges and other one-time fees associated with customer service

Fixed Monthly Contribution
Fixed monthly contribution are monthly recurring revenue based on a fixed monthly rate recognized on accrual basis, based on contracted rates as the service is provided to the customers.

International Long Distance Revenues
International long distance consist of inbound call revenues from foreign telecom carrier and outbound call revenues terminating in foreign territories and other access charges by other telecom carriers terminating to the local exchange network. Revenues are recognized based on minutes processed and contracted fees as received.

Domestic Long Distance Revenues
Domestic long distance revenues consist of charges for calls made by fixed line customers outside of the local services areas but within the Philippines, net of interconnect settlement and access charges received from other telecom carriers for calls received through the network and/or terminating to our customers.

Business Convergence (BCON)

PT&T has categorized its Business Convergence (BCON) into broadband service and the traditional bandwidth services, including local area network extension, and enhanced local and long distance voice services.

Broadband Services:
Broadband/Internet Based Services includes frame relay, asynchronous transfer mode (ATM), Internet Protocol-Virtual Private Network (IP-VPN), Digital Subscriber Lines (DSL) and wireless Gigabit Ethernet (GE) technologies. These are designed to provide full high capacity connectivity solutions to specific wholesale market niche and the more expansive industry retail sector.

Broadband/Internet revenues are recognized based on contracted rates as the service is provided to the customers. Installation charges and other one-time fees associated with the installation are charged to capital expenditures.

Traditional Bandwidth Services:
Traditional Bandwidth Services include high speed point-to-point domestic and international digital leased lines that are dedicated, on-line and protocol-transparent, communication links to facilitate service either voice, fax, data or video transmission. Revenues are recognized based on contracted rates as the service is provided to the customers.

Retail Distribution Network (RDN)

RDN is one of the Company's strategic business units (SBU) providing variety of services ranging from internet based services to traditional products such as vodex, payphone, faxgram, telegraph and others. Revenues are recognized as the related services is rendered to customers.

Cash

Cash includes cash on hand and in banks.

Receivables and Allowance for Doubtful Accounts

Receivables are recognized and carried at billable amounts less allowance for doubtful accounts. An allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is made by the Company on a continuous basis.

- Customers
  Substantially full allowance is provided for receivables from permanently and temporarily disconnected subscribers. Permanent and temporary disconnections are made after a series of collection steps following nonpayment by subscribers. Such permanent and temporary disconnections generally occur within ninety days from due date. Additional provisions are made for other accounts specifically identified by the Company to be doubtful of collection.

- Traffic Settlement Receivables - net
  Provisions are made for accounts specifically identified by the Company to be doubtful of collection.

Inventories and Supplies

Inventories and supplies are valued at the lower of cost or net realizable value less allowance for inventory losses. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

Property and Equipment

Property and equipment are carried at revalued amounts as determined on June 30, 1998 by an independent firm of appraisers.

The net appraisal increment resulting from the revaluation was credited to the Revaluation Increment in Property account shown under stockholders' equity in the balance sheets. The amount of the revaluation increment absorbed through depreciation is being transferred to the Deficit account in the balance sheets.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes interest, foreign exchange differentials and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation, provided the carrying amount of the related fixed asset does not exceed the lower of the replacement cost and the amount recoverable from the use or sale of the asset. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance 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, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over their estimated useful lives or the term of the related lease, whichever is shorter. The average estimated useful lives of property and equipment are as follows:

Category	Number of Years
Land improvements	30
Buildings and improvements	30
Telecommunications equipment:	
Central office equipment	15-18
Cable and wire facilities	15
Vehicles, furniture and other work Equipment	5

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are sold or retired, their cost, accumulated depreciation and amortization and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is charged to current operations.

Projects under construction are transferred to the related property account when the construction or installation and related activities necessary to prepare the property for its intended use are complete and the property is ready for service.

Additional continuing disclosures on the Company's property and equipment are disclosed in SEC Form 17-A previously submitted.

Impairment of Assets

Starting July 1, 2002, the carrying values of property and equipment and other noncurrent assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the assets is the greater of net selling price and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are charged against the revaluation increment for revalued assets and in the statements of income for assets carried at cost.

Investments

The Company's investment in its associate, Philippine Wireless, Inc. (PWI, 20% owned), is accounted for under the equity method. PWI is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. The investment in PWI is carried in the balance sheets at cost plus post-acquisition changes in the Company's share in the net assets of PWI, less any impairment in value. The statements of income reflect the Company's share in the results of operations of the associate.

Other investments are carried at cost less allowance for any substantial and presumably permanent decline in their market value.

Income Taxes

Deferred income tax is provided using the liability method. Deferred income tax assets and liabilities are recognized for (a) the future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases and (b) the carryforward benefits of the minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO). Deferred income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which (a) those temporary differences are expected to be recovered or settled and (b) MCIT and NOLCO are expected to be applied. A valuation allowance is provided for the portion of deferred income tax assets which is not expected to be realized in the future.

Retirement Costs

Retirement costs are determined on an actuarial basis using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of covered employees.

Borrowing Costs

Interest and other related financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation are capitalized as part of the cost of the property. The capitalization of those borrowing costs as part of the cost of the property (a) commences when the expenditures and borrowing costs are being incurred during the installation and related activities necessary to prepare the property for its intended use are in progress and (b) ceases when substantially all the activities necessary to prepare the property for its intended use are complete. Other borrowing costs are recognized as expense in the period in which they are incurred.

Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso based on the exchange rates prevailing at the date of the transaction. Foreign currency-denominated assets and liabilities are translated into Philippine peso using the closing exchange rate prevailing at the balance sheet date. Exchange gains or losses arising from foreign currency transactions are credited or charged to current operations, except those considered as borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which are capitalized as part of the cost of the related assets to the extent of their recoverable values.

Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income or loss for the year attributable to common stockholders by the weighted average number of common shares issued during the year including fully paid but unissued shares as of the end of the year.

Related Party Transactions

The Company, in its regular conduct of business, has engaged in transactions with affiliates, principally consisting of various telecommunication services.

Debt Restructuring

The Company's management has been authorized by its Board of Directors to entertain potential funders/investors, including those recommended by the creditors, for the Company's major project which also involves strengthening of its financial condition. Preliminary data and information are being supplied to those who have executed confidentiality agreements so that they can conduct their initial evaluation leading to further concrete developments as the case may be.

The Company has likewise been informed by certain creditors that they have been approached by interested parties for possible debt buy-outs. However, similar to trading of debt papers under the ambit of the special purpose vehicle (SPV) law, the Company is not privy to matters being discussed/negotiated among them. In this regard, further developments are being awaited which may lead to substitution of creditor(s) in the Company's books.

The holding of the regular annual stockholders' meeting is still held in abeyance pending submission to the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE) of the Company's audited financial statements for the fiscal years ending June 30, 2004, 2005, and 2006. As explained to the SEC under the Company's request for temporary exemptive relief, certain matters have yet to be resolved in order to satisfy the requirements of its external auditor, SGV & Co.

Tax Liabilities

The Company had applied for compromise settlement of the Corporation's tax liabilities of about PhP458 million. In its letter dated 30 March 2005, the company had offered a payment plan.

3. Other Matters

Key Performance Indicators

The Company assessed its performance based on the following key performance indicators:

	SEPT 2006	SEPT 2005	% CHANGE
REVENUES (in PhP thousands)	77,614	114,721	(0.32)
EBITDA Margin (1)	-20%	3%	(7.67)
EBIT Margin (2)	(2.72)	(1.76)	
Cash flow provided by operating activities (in PhP thousands)	4,263	14,746	(0.71)
Debt to equity ratio (3)	0.26	0.22	

(1) EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, Amortization and Other Income/Charges. EBITDA is computed by deducting costs and expenses (excluding Depreciation and Amortization) from net operating revenues. EBITDA Margin is calculated by dividing EBITDA over net operating revenues.

(2) EBIT is defined as Earnings Before Interest, Taxes and Other Income/Charges. EBIT is computed by deducting costs and expenses from net operating revenues. EBIT margin is calculated by dividing EBIT over net operating margin.

(3) Debt to equity ratio is computed by dividing total debt to total equity.

Seasonality or cyclicality of interim operations

The revenues of the Company that are received seasonally, cyclically or occasionally within financial year, if any were not anticipated or deferred as of an interim date, hence, such revenues are recognized when they occur.

The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents

The Company has no items considered unusual because of their nature, size, or incidents that will affect assets, liabilities, equity, net income or cash flows for the period except as already disclosed in Financial Position section of this report.

Issuances, repurchases, and repayments of debt and equity securities

The Company did not issue, repurchase and repay any debts and equity securities during the period under review.

Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

There are no material events subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period.

Item 2: Management's Discussion and Analysis of Financial condition and Results of Operation

The following discussion and analysis should be read in conjunction with the accompanying financial statements and the related notes. PT&T's financial statements and the financial information discussed below have been prepared in accordance with Philippine generally accepted accounting principles, or Philippine GAAP.

The Company has selected and applied accounting policies so that financial statements will comply with all the requirements of Statement of Financial Accounting Standard and Interpretations. If there are no specific requirements, management has developed policies to ensure that the financial statements provide relevant and reliable information.

The Company maintains and adopted no change in accounting principle or practice, or in the method of applying any accounting principle or practice which affects relevance, reliability and comparability of the financial statements with those of prior periods.

The Company has no significant change in accounting estimates of the amount reported during the interim period of the financial year and in the other interim period or changes in estimates of amounts reported in prior financial years.

Since the last annual balance sheet date, the Company has no change in contingent liabilities and contingent assets during the interim financial period reported.

The Company is contingently liable for various claims arising in the ordinary conduct of business and certain tax assessments, which are being contested. Additional details of the disclosures are disclosed in the SEC Form 17-A and its attachments previously submitted.

During the interim period, there is no change in the Company's composition with regards to business combination, acquisition or disposal of subsidiaries and long-term investments and discontinuing operations, other than the explanations presented in Items 1&2 and Notes to Financial Statements.

The financial information appearing in this report and in the accompanying financial statements is stated in Philippine pesos. Translation into Philippine peso amounts into U.S. dollar in this report and in the accompanying financial statements were based on the exchange rate of P50.401 vis-à-vis U.S.$1.00, the average exchange rate of the U.S. dollar at September 30, 2006.

FINANCIAL HIGHLIGHTS
(Amounts in PhP Thousands)

Balance Sheet Data	***Sept. 30, 2006*** **(Unaudited)**	***June 30, 2006*** **(Unaudited)**	Change	%
Total Assets	8,342,938	8,533,877	(190,939)	-2%
Total Debts	1,794,042	1,773,441	20,601	1%
Total Equity	6,548,897	6,760,436	(211,539)	-3%
Property, Plant & Equipment	7,268,514	7,459,577	(191,063)	-3%
Current Assets	554,580	561,512	(6,932)	-1%
Current Liabilities	1,624,058	1,604,528	19,530	1%
Financial Ratios				
Debt to Equity Ratio	0.27	0.26		
Current Ratio	0.34	0.35		
Profit and Loss Data	***Sept. 30, 2006***	***Sept. 30, 2006***		
	(Unaudited)	(Unaudited)	Change	%
Net Operating Revenues	77,614	114,721	(37,107)	-32%
Costs and Expenses	93,115	111,482	18,367	16%
EBITDA	(15,501)	3,239	(18,740)	-579%
Loss from Operations	210,730	201,444	(9,286)	-5%
Net Loss	211,539	351,529	139,990	40%
Profitability Ratios				
Operating Margin	-272%	-176%		
EBITDA Margin	-20%	3%		
Cash Flow Statement				
Net Cash from Operation	4,263	14,746	(10,483)	-71%
Net Cash Flows from Investing-CAPEX	(4,167)	(15,814)	(11,647)	-74%
Net Cash Flows	97	(1,068)	1,165	109%
Other Data				
Loss per Share	0.17	0.28		
Book Value per Share	5.22	5.39		
Peso/Dollar Exchange Rate	50.401	56.152		

FINANCIAL CONDITION

A.) Balance sheet

Cash of P1.784M as of September 30, 2006 increased by P97K or 6% as compared to June 30, 2006 due to close monitoring of disbursements in operating expenses and re-scheduling of capital expenditures.

Current portion of long-term debt of P35.648M as of September 30, 2006 decreased by P2.027M or 5% as compare to June 30, 2006 due to improvement in the foreign exchange rate.

In terms of financial ratios, debt-to-equity ratio is at 0.27x as of September 30, 2006 compared to June 30, 2005 of 0.26x.

Current ratio as of September 30, 2006 is at 0.34x as compared to 0.35x of June 30, 2005.

B.) Profit and Loss

Net operating revenues of P77.614M as of September 30, 2006 decreased by P37.107M or 32% as compared to September 30, 2005 of P114.721M due to decrease LEC revenues.

Costs and expenses of P93.115M as of September 30, 2006 decreased by P111.482M or 13% as compared to September 30, 2005 of P18.367M because of the continuous cost reduction program.

The Company's EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to negative P15.501M as of September 30, 2006, lower by P18.739M as compared to September 30, 2005 of P3.239M because of the decline in revenues despite the continuing cost reduction programs of the Company.

The factors discussed above, increased the loss from operations by P9.285M or 5% as of September 30, 2006 compared to the same period last year.

Net loss of P211.539M as of September 30, 2006 decreased by P139.990M or 40% as compared to the same period last year principally because of improvement in foreign exchange rate and reduction of interest due to conversion by the Company of the remaining debt to equity.

C.) Cash Flow

Net cash from operation of P4.263M as of September 30, 2006 decreased by P10.483M as compared to September 30, 2005 of P14.476M due to decrease in revenues.

RESULTS OF OPERATIONS

I.) REVENUE

PT&T has organized its strategic units into three business segments: Local Exchange Carrier (LEC), Business Convergence(BCON) and Retail Distribution Network (RDN).

Overview:

The Company has achieved 68% performance of the total revenue for the 1st Quarter FY2006, as compared to the same period last year.

Contributing to the decrease in Revenues were decreases in LEC SLI, lower international long distance usage, decline in Datacom circuit as well as ARPC (average revenue per circuit), decline in traditional messaging: PCO minutes, vodex NDD outbound revenue, prepaid card usage, telegram, and faxgram messages.

OPERATING REVENUES - Net
(In PhP Thousands)

	1st Quarter FY2007	1st Quarter FY2006	VARIANCE	%
LEC	32,619	61,524	(28,905)	-47%
BCON	40,811	47,807	(6,996)	-15%
RDN	4,185	5,390	(1,205)	-22%
TOTAL REVENUES	**77,614**	**114,721**	**(37,107)**	**-32%**

Results of Operation:

The following table shows the contribution of each business segment to the Company's operating revenue for the 1st Quarter FY2006 and FY2005. The revenues consist of Local Exchange Carrier, Business Convergence and Retail Distribution Network representing 42%, 53% and 5% respectively of the total revenue.

OPERATING REVENUES - Net
(In PhP Thousands)

	1st Qtr. FY2007	% TO REVENUE	1st Qtr. FY2006	% TO REVENUE
LEC	32,619	42%	61,524	54%
BCON	40,811	53%	47,807	42%
RDN	4,185	5%	5,390	5%
TOTAL REVENUES	**77,614**	**100%**	**114,721**	**100%**

A. LOCAL EXCHANGE CARRIER (LEC):

LEC offers basic telephone services, which includes the local calls, long distance (domestic and international) calls and texting capability. Subscription can be made on a postpaid basis. Revenues derived from these services consist of a fixed monthly recurring rate, which are billed for postpaid or paid in advance for prepaid subscribers. For postpaid subscribers, they are also billed for the long-distance calls and usages of dial-up internet. For prepaid subscribers, their long distance calls and internet usage is through their purchase of prepaid access card and loads for texting capability. LEC contributes 42% of total revenues for 1st Quarter FY2007 ended September 30, 2006.

Results of Operation:

For the 1st Quarter FY2007 ended September 30, 2006 of operation, LEC reached a 53% performance compared to the same period last year.

LEC REVENUE MIX
(In PhP Thousands)

	1st Qtr. FY2007	1st Qtr. FY2006	VARIANCE	%
Basic telephone services	**32,231**	**59,755**	**(27,524)**	**-46%**
Paystation	**388**	**1,769**	**(1,381)**	**-78%**
TOTAL	**32,619**	**61,524**	**(28,905)**	**-47%**

TELEPHONY

The quarter was indeed a tough phase for the telephony division amidst the challenges of increasing cellular and VOIP services. Aggressive sales-blitz and telesales methods are conducted regularly to increase subscription in the areas covered. More so, the group is developing new strategies to further its market share.

In quest of providing reliable and efficient service among telephone subscribers, the group has recently launched its Oplan Repair Rescue. The drive addressed the issues of technical complaints and the vast damaged caused by the recent catastrophe.

On the worsening issue of cable theft, PT&T joins other utilities' companies in condemning these crimes and attempt to lessen if not eliminate these concerns thru massive information drive and additional security over its facilities.

PAYSTATION

For paystation services, the company is tapping potential sites for its new payphones to increase profits such as Bayad centers and other strategic sites both in Laguna and Rizal. More so, coin collection and payphone facilities maintenance have been integrated with the company's tasks to ensure efficiency and reduce costs of paying an outsource contractor.

B. BUSINESS CONVERGENCE – (BCON)

PT&T has categorized its Broadband and Convergence (BCON) group to focus on delivering broadband services and converged services, integrating both traditional media and new media to suit the needs of the retail, wholesale and corporate market.

Results of Operation:

For the 1st Quarter FY2007 ended September 30, 2006, BCON reached an 85% performance as compared to the same period last year.

CORBIZ REVENUE MIX
(In PhP Thousands)

	1st Qtr. FY2007	1st Qtr. FY2006	VARIANCE	%
Private Lines	24,642	29,138	(4,496)	-15%
Broadband	16,169	18,668	(2,499)	-13%
TOTAL	40,811	47,807	(6,996)	-15%

PRIVATE LINES

Drop in revenue and sales for traditional services can be attributed to disconnections and subscriber migration to other alternative services. Broadband is becoming more popular and customers prefer this new technology to the traditional service because of price difference and the flexibility of the service. Also, revenue is affected due to the application of rate reduction.

BROADBAND

Activities for the broadband group included street level saturations on major nodes and account management of existing subscribers. Continuous direct mail campaign, print ad and leafleting were implemented to gain awareness. Sales force is focused mainly on the business market segment.

C. RETAIL DISTRIBUTION NETWORK (RDN)

RDN is one the Company's strategic business units (SBU) that provides a variety of services ranging from internet based services to traditional products such as vodex, payphone, faxgram, telegraph and others.

Results of Operation:

For the 1st Qtr. FY2007 ended September 30, 2006, RDN achieved a 78% performance as compared to the same period last year as shown on the table below.

RDN REVENUE MIX
(In PhP Thousands)

	1st Qtr. FY2007	1st Qtr. FY2006	VARIANCE	%
Retail internet	1,678	2,347	(669)	-29%
Retail Data	1,717	1,695	22	1%
Long Distance Retail	790	1,348	(558)	-41%
TOTAL	**4,185**	**5,390**	**(1,205)**	**-22%**

Data Services

Retail Internet

For the first quarter of the fiscal year, there are 11 company-owned Click & Call outlets and three (3) franchise outlets in operation compared to last year's 13 and 5 respectively. This reduction is a result of the closure of low-revenue generating branches.

Online gaming continues to be the major growth driver in the internet café industry. As such, maintenance and hardware set-up upgrade were made an integral part of the business plan to enable Click & Call to maximize revenue opportunities in the growing uptake of online gaming. However, since this upgrade did not materialize during the first quarter of the fiscal year, Click & Call's uptrend during the period was marginalized to a jog rather than the projected sprint.

The Click & Call management team explored all avenues by which to take advantage of opportunities in online gaming. The team's major success in its continuing relationship-building with online game publishers is Click & Call's positioning as top-of-mind choice for online gaming activities such as tournaments and free plays.

Still, the hardware limitations of Click & Call workstations made it difficult to sustain the online gaming market. At best, basic fill-up of workstations and minor upgrades were implemented thru reallocation of available high-specs PCs from closed outlets to the higher-yield branches.

A succession of force majeure situations and network downtimes also plagued Click & Call during the first quarter. More recently in NCR and the Bicol Region, Typhoon Milenyo wrecked havoc during the crucial last week of September.

Retail Data

Bucking predictions of phase-out, telegraph revenues for the first quarter remains well within the budget with operations focused on the high-yield corporate market. There have been an influx of returning subscribers mostly banks and credit card companies which temporarily shifted to other modes of communication such as texting and email. These users discover that telegram is still the more reliable and legally-accepted mode of business-to-consumer data communication.

Voice Services

Long Distance Retail

Long distance revenues generated from reseller branches and the Click & Call outlets continue to be affected by recurring backbone downtimes and unstable interconnection.

II.) COSTS AND EXPENSES

For the 1st Qtr. FY2007 ended September 30, 2006, the Company posted a P93.115M costs and expenses resulting to P18.367M or 16% lower than the same period last year of P111.482M. This can be attributed to the Company's successful programs in trimming down cost and expenses during the period.

The following table shows the Company's comparative total costs and expenses for the 1st Qtr FY2007 ended September 30, 2006 and 2005:

COSTS & EXPENSES
(In PhP Thousands)

	1st Qtr. FY2007	1st Qtr. FY2006	VARIANCE	%
1) Operating Expenses	**84,756**	**102,077**	**17,321**	**17%**
Staff related expenses	32,442	39,069	6,627	17%
Premises related expenses	24,619	29,975	5,356	18%
Other operations related expenses	27,694	33,033	5,339	16%
2) Provisions for doubtful accounts	**8,359**	**9,405**	**1,046**	**11%**
TOTAL COSTS AND EXPENSES	**93,115**	**111,482**	**18,367**	**16%**

1.) Operating Expenses

For the 1st Qtr. FY2007 ended September 30, 2006, the Company posted an operating expenses of P84.756M resulting to 17% or P17.321M lower than the same period last year of P102.077M. These can be attributed to the decrease in staff related, premises related expenses and operations related expenses as follows:

Staff Related Expenses
For the 1st Qtr. FY2007 ended September 30, 2006, the Company's staff related expenses amounted to P32.442M as compared to the same period last year of P39.069M for a decrease of P6.627M or 17%. The decrease in staff related expenses is mainly due to the continuous manpower rationalization.

Premises Related Expenses
For the 1st Qtr. FY2007 ended September 30, 2006, the Company's premises related expenses amounted to P24.619M as compared to the same period last year of P29.975M for a decrease of P5.356M.

Other Operations Related Expenses
For the 1st Qtr. FY2007 ended September 30, 2006, the Company's other operations related expenses amounted to P27.694M as compared to the same period last year of P33.033M for a decrease of P5.339M. The decrease can be generally attributed to the Company's cost reduction initiatives during the period.

2.) Provisions for Doubtful Accounts

For 1st Qtr. FY2007 ended September 30, 2006, the Company's provisions for doubtful accounts amounted to P8.359M as compared to the same period last year of P9.405M for a decrease of P1.046M or 11%.

3.) Depreciation and Amortization Expenses

For the 1st Qtr FY2007 ended September 30, 2006, the Company's depreciation and amortization expenses amounted to P195.229M as compared to the same period last year of P204.683M for a decrease of P9.384M.

III.) INTEREST AND OTHER CHARGES -NET

OTHER CHARGES- Net
(In PhP Thousands)

	1st Qtr. FY2007	1st Qtr. FY2006	VARIANCE	%
Foreign exchange (gain) loss	(2,027)	78,989	81,016	103%
Interest	2,904	77,095	74,191	96%
Others	(67)	(5,999)	(5,932)	99%
	810	**150,084**	**149,274**	**99%**

The Company's interest and other charges amounted to P810K for the 1st Qtr. FY2007 ended September 30, 2006, representing 99% or P149.274M lower than the same period last year of P150.084M. This includes the P2.027M gain on foreign currency adjustment for the current year as compared to P78.989M loss on foreign currency adjustment of the prior year. The exchange rate was P50.401 vis-à-vis US $1 compared to P56.152 as of September 30, 2006 and 2005 respectively.

The interest expense for the 1st Qtr. FY2007 ended September 30, 2006 amounted to P2.904M; representing 96% or P74.191M lower than the same period last year of P77.095M due to conversion by the Company of the remaining debt to equity.

IV.) NET OPERATING LOSS

As a result of the factors discussed above, the Company registered a net loss from operations of P211.539M for the three(3) months period ended September 30, 2006 as compared to the same period last year of P351.529M for a decrease of 40% or P139.990M.

V.) EBITDA

EBITDA
(In PhP Thousands)

	1st Qtr. FY2007	1st Qtr. FY2006	VARIANCE	%
OPERATING REVENUES	**77,614**	**114,721**	**(37,107)**	**-32%**
OPERATING EXPENSES				
Staff related expenses	32,442	39,069	6,627	17%
Premises related expenses	24,619	29,975	5,356	18%
Other operations related expenses	27,694	33,033	5,339	16%
Provisions for doubtful accounts	8,359	9,405	1,046	11%
	93,115	**111,482**	**18,367**	**16%**
EBITDA	**(15,501)**	**3,239**	**(18,740)**	
EBITDA MARGIN	**-20%**	**3%**	**-23%**	

The Company's' Earnings Before Interest Expenses, Taxes and Depreciation & Amortization (EBITDA) for the 1st Qtr. FY2007 ended September 30, 2006 amounted to negative P15.501M, versus the P3.239M of the same period last year. The lower EBITDA was brought about by the decline in traditional revenues despite the continuing cost reduction programs of the Company.

VI.) CASH FLOWS

A.) NET CASH FLOWS FROM OPERATIONS

For the three(3)-months period ended September 30, 2006, the Company generated a positive cash flow from operations amounting to P4.263M.

B.) NET CASH FLOWS FROM INVESTING - CAPEX

The additions to Plant Property and Equipment (PPE) for the three(3)-months period ended September 30, 2006 amounted to P4.167M. Major portion of these capital expenditures represents SLI installations.

C.) NET CASH FLOWS FROM FINANCING

The Company principally relied on internally generated cash flow from operations for its funding requirements during the period.

VII.) OTHER EVENTS

A.) Any known trends, demands, commitments, events, or uncertainties that will have a material impact on the issuer's liquidity

The Management has no knowledge of any known trends, demands, commitments, events, or uncertainties that will have a material impact on the company's liquidity except as those disclosed in Tax Liabilities and Financial Position and other sections of this report and in SEC Form 17-A previously submitted.

B.) Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures

The Management has no knowledge of any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of the funds for such expenditures.

C.) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations

The Management has no knowledge of any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations except as those disclosed in Results of Operations section of this report and in SEC Form 17-A previously submitted.

D.) Any significant elements of income or loss that did not arise from the issuer's continuing operations

The Management has no knowledge of any significant elements of income or loss that did not arise from the Company's continuing operations.

E.) Any seasonal aspects that had a material effect on the financial condition or results of operations

The Management has no knowledge of any seasonal aspect, events or uncertainties that will have a material impact on the Company's financial position or operation except as those disclosed in Financial Position and Results of Operations and other sections of this report and in SEC Form 17-A previously submitted.

F.) ***Whether or not the Company is having or anticipates having within the next 12 months any cash flow or liquidity problem***

As explained elsewhere in this report, the Company's liquidity position shall be improved if the proposed compromise settlement for tax liabilities, which is a significant portion of the current liabilities, is accepted by the BIR. The Company's management has likewise made certain recommendations to its lender-shareholders, who now comprise the majority ownership interest in the Company due to the concluded debt restructuring program, for the strengthening of the Company's stockholders equity.

G.) Whether or not the Company is in default or breach of any note, loan, lease or other indebtedness of financing arrangement requiring it to make payments

As mentioned elsewhere in this report, the Company's board of directors, with representation by the lender-shareholders, have approved the business plan for the first half of fiscal year 2007 which covers the financial plan for the said fiscal year, including financial arrangements with respect to operational expenses, capital expenditures, and debt servicing.

H.) Whether or not a significant amount of the Company's trade payables have not been paid within the stated trade terms

As explained above, the Company's business plan for the first half of fiscal year 2007 covers financial arrangements for trade payables, including old accounts whose payment terms have been stretched upon mutual agreement with the concerned supplier.

PART I I– OTHER INFORMATION

Disclosure made under SEC Form 17-C:

This is in compliance with SEC Form 17-C of the Securities Regulation Code and SRC Rule 17.2 c regarding current reporting. Other than the explanations presented in Items 1 & 2, Management has no knowledge of any current events, known facts, or existing uncertainties that will reasonably affect the decision of investors to buy or sell securities or will have a material impact on the Company's financial position and operation.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE TELEGRAPH AND TELEPHONE CORP.
Issuer

Principal Financial/Accounting Officer/Controller:

Signature and Title: **ARTURO T. FALCO**
Vice President – Group Comptroller

Date: November 20, 2006