DIGITEL

DIGITAL TELECOMMUNICATIONS
PHILIPPINES, INC.

October 8, 2004

SECURITIES AND EXCHANGE COMMISSION
CORPORATION FINANCE DEPARTMENT
6th Floor SEC Building, EDSA Greenhills
Mandaluyong City

Attention: **MS. JUSTINA F. CALLANGAN**
Director

Dear Ms. Callangan:

In response to your letter dated September 24, 2004 which was received last October 5, 2004 concerning your comments on our 2nd quarterly report (SEC Form 17-Q) for the period ended June 30, 2004, please find on the attached checklist our reply to your request for additional discussions/disclosures.

Trusting that you will find everything in order.

Very truly yours,

DIGITAL TELECOMMUNICATIONS PHILS., INC.

JAIME I. CABANGIS
Chief Financial Officer

110 E. RODRIGUEZ JR. AVENUE, BAGUMBAYAN, 1110 QUEZON CITY, PHILIPPINES • TEL+63(2) 397 8888

SECURITIES AND EXCHANGE COMMISSION
CHECKLIST OF REQUIRED DISCLOSURES
SEC FORM 17-Q

DIGITAL TELECOMMUNICATIONS PHILS., INC.
FOR THE QUARTER ENDED JUNE 30, 2004 (Q2)

	Page Number	Remarks	Reply
PART 1. FINANCIAL INFORMATION			
Item 1. Financial Statements Required Under SRC Rule 68.1			
Interim Statements of Cash Flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.			
2nd Qtr. - January to June of the current interim period - January to June of the preceding financial year	8	Figures for the three months ended June 30, 2004 & 2003 need not be presented	Please refer to page 8, Cash flow Statement
Item 2. Management's Discussion and Analysis (MDA) of Financial Condition and Results of Operations [PartIII, Par. (A)(2)(b)]			
Discussion of the company's and its majority-owned subsidiaries' top five (5) key performance indicators. It shall include a discussion of the manner by which the company calculates or identifies the indicators presented on a comparable basis.	20	Not complied with	Please refer to page 20, Note no. 10 Other Matters - Key Performance Indicators
Discussion and analysis of material event/s and uncertainties known to management that would address the past and would have an impact on future operations of the following:			
Any known trend or any known demand, commitment, event or uncertainty that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The registrant shall indicate balance sheet conditions or income or cash flow items that it believes may be indicators of its liquidity position. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next 12 months any cash flow or liquidity problem; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness of financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms. If a material deficiency is identified, the course of action that the registrant has taken or proposes to take to remedy the deficiency should also be indicated. The registrant should identify and separately describe internal and external sources of liquidity, and briefly discuss any source of liquid assets used.	21	Considering its low current ratio, this must be discussed.	Please refer to page 21, Note no. 10 - Other Matters - Material Events (a), page 3, Financial Position, par. 2-4, 6, 12
The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item; The term "material" in this section shall refer to changes or items amounting to five percent (5%) of the relevant accounts or such lower amount, which the registrant deems material on the basis of other factors.	3	Incomplete (re: Due from Affiliates, Property and Equipment-net, Accounts Payable and Accrued Expenses, and Due to Affiliates)	Please refer to page 3, Financial Position, par. 5, 7, 10 and 13

SEC Number 145111
File Number ________

DIGITAL TELECOMMUNICATIONS PHILS., INC.
(D I G I T E L)

(Company's Full Name)

110 Eulogio Rodriguez Jr. Avenue, Bagumbayan 1110 Quezon City, Metro Manila

(Company's Address)

(63-2) 397- 8888

(Telephone Number)

December 31

(Fiscal Year Ending)
(month & day)

Amended SEC FORM 17-Q

Form Type

Amendment Designation(If applicable)

30 June 2004

Period Ended Date

N.A.

(Secondary License Type and file Number)

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 June 30, 2004

2. Commission identification number 145111 3. BIR Tax Identification No. 000-449-918-000

4. Exact name of issuer as specified in its charter Digital Telecommunications Phils., Inc.

5. Province, country or other jurisdiction of incorporation or organization Philippines

6. Industry Classification Code : (SEC Use Only)

7. 110 Eulogio Rodriguez Jr. Avenue, Bagumbayan, Quezon City 1110
Address of issuer's principal office Postal Code

8. (63-2) 397-8888
Issuer's telephone number, including area code

9. Not Applicable
Former name, former address and former fiscal year

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

Title of Each Class	Number of shares of common stock outstanding and amount of debt Outstanding
Common shares, PhP1.00 par value	6,356,976,300

11. Are any or all of the securities listed on the Philippine Stock Exchange ?

Yes [/] No [ ]

12. Indicate by check mark whether the issuer:FV

(a) has filed all reports required to be filed by Section 17 of the Code and SCR Rule 17 thereunder and Sections 11of 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 the registrant was required to file such reports)
Yes [/] No [ ]

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

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements.

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Six months ended June 30, 2004 Compared to Six months ended June 30, 2003

DIGITEL's consolidated net revenues rose to P3,494.7 million for the six months ended June 30, 2004, an 11.9% increase from P3,121.7 million for the six months ended June 30, 2003.

The increase in consolidated net revenues was attributable to the P675.8 million revenue by the wireless segment of the company's business in 2004 as compared to the P466.2 million contribution in 2003 since its launching on March 29, 2003. Further, this was boosted by the strong growth in international toll revenues by P209.0 million or 22.3% due to higher inbound rates coupled with higher inbound traffic.

Wireline data communication services increased slightly to P184.0 million in June 30, 2004 from P182.4 million for the same period in 2003.

Consolidated costs and expenses amounted to P3,595.8 million for the six months ended June 30, 2004, or an 11.9% increase from P3,212.7 million for the six months ended June 30, 2003. The increase was attributable mainly to higher operating expenses of its wireless business such as rental, advertising and commission expenses by P402.9 million.

Depreciation and amortization decreased by P53.6 million or 4.3% in June 30, 2004. The lesser depreciation expense in 2004 was primarily attributable to fully depreciated assets by the end of 2003.

As a result of the foregoing, DIGITEL incurred a consolidated operating loss of P101.1 million for the six months ended June 30, 2004 compared to P91.0 million for the same period in 2003.

Consolidated other charges – net (principally interest expense, net of interest income) amounted to P652.7 million for the six months ended June 30, 2004. This posted a 6.4% increase from P613.3 million for the six months ended June 30, 2003. As a result, consolidated pre-tax accounting loss amounted to P753.8 million for the six months ended June 30, 2004 compared to P704.3 million for the six months ended June 30, 2003.

DIGITEL registered a consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) of P1,083.9 million despite a consolidated net loss of P693.4 million for the six months ended June 30, 2004. For the six months ended June 30, 2003, consolidated EBITDA was P1,147.7 million while consolidated net loss was P478.6 million.

Financial Position

Total assets reached P49,160.0 million as of June 30, 2004, a 6.1% increase from P46,335.9 million at the end of 2003.

Accounts receivable – trade (net) registered a decrease of 17.1% or P388.3 million due to collection of certain inter carrier accounts and additional provision for probable losses.

Other accounts receivable increased by 86.0% or P167.0 million basically due to additional advances to suppliers and contractors of the wireless business.

Inventories and supplies increased by P200.9 million or 58.3% from P344.5 million as of December 31, 2003 to P545.4 million as of June 30, 2004 primarily due to purchases of handsets, Subscriber Identification Module (SIM) cards, call cards and others for DIGITEL's cellular mobile telephone services.

Due from affiliates decreased by P19.3 million or 8.5% from P226.1 million as of December 31, 2003 to P206.8 million as of June 30, 2004 due to collection of receivable from affiliates.

Prepaid expenses and other current assets increased by P561.4 million or 60.0% arising from recognition of input taxes on property additions covered by loan drawings, prepayments of rental, taxes and other expenses.

Property and Equipment – net increased to P 42,079.5 million as of June 30, 2004, a 5.1% increase from P40,039.7 million as of December 31, 2003, as a result of the Company's continuing investments in telecommunications facilities, funded through bank financing and advances from affiliates.

The increase of P54.0 million or 8.3% in net deferred tax assets was attributable to the deferred taxes on additional allowance for probable losses.

Other assets increased by 38.1% or by P289.8 million due to additional deferred handset costs recorded during the quarter.

Accounts payable and accrued expenses increased by P 582.2 million or 8.6% due to liabilities to suppliers contracted to install the wireless network and other projects related to the wireless services business.

DIGITEL issued a Zero Coupon 12% Convertible Bonds due 2013, which as of June 30, 2004 has an outstanding balance of P631.8 million. The increase of P65.3 million or 11.5% was due to amortization of discount coupled with the depreciation of Philippine Peso.

Long term debts (current and non-current) aggregating to P19,862.3 million as of June 30, 2004 and P18,701.5 million at the end of 2003 consisted of suppliers' credits, bank financing, minimum capacity purchase agreement and financial lease obligations.

DIGITEL obtained financing from foreign and local affiliates to fund the wireless services network project. As of June 30, 2004 and December 31, 2003, outstanding balances were P11,806.3 million and P10,080.5 million, respectively.

Capital stock stood at P8,975.7 million as of June 30, 2004 and December 31, 2003. Retained earnings amounted to P87.0 million and P 780.4 million as of June 30, 2004 and December 31, 2003, respectively.

DIGITEL's financing requirements were covered by both internally generated funds and external borrowings. Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization) amounted to P1,083.9 million in June 30, 2004, down by 5.6% from P1,147.7 million in June 30, 2003. Consolidated net cash flow provided by operating activities in 2004 amounted to P527.7 million from P1,602.4 million in 2003. Net cash financing from external sources amounted to P2,882.2 million in 2004 and P226.7 million in 2003.

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 thereto duly authorized.

Issuer Digital Telecommunications Phils., Inc.

By:

Mr. Lance Y. Gokongwei

Signature and Title President and Chief Executive Officer

Date 10-11-04

Principal Financial/Accounting Officer/Controller

Mr. Jaime I. Cabangis

Signature and Title Chief Financial Officer

Date 10-11-04

DIGITAL TELECOMMUNICATIONS PHILS., INC.
CONSOLIDATED BALANCE SHEETS
(In Thousand Pesos)

	June 30 2004 (Unaudited)	December 31 2003 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	**P** 562,424	**P** 637,362
Accounts receivable:		
Trade (net of allowance for probable losses of P1,476,255 as of June 30, 2004 and P1,330,170 as of December 31,2003)	1,878,582	2,266,907
Others	361,261	194,218
Inventories and supplies	545,399	344,461
Due from affiliates	206,844	226,137
Prepaid expenses and other current assets	1,498,486	937,117
Total Current Assets	5,052,996	4,606,202
Noncurrent Assets		
Investments and advances - net	269,453	275,784
Property and equipment -net	42,079,497	40,039,735
Deferred tax assets – net	707,217	653,197
Other assets	1,050,857	761,013
Total Noncurrent Assets	44,107,024	41,729,729
	P 49,160,020	**P** 46,335,931
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 2)	**P** 7,315,222	**P** 6,733,024
Income tax payable	-	7,404
Current portion of long-term liabilities (Note 3)	2,170,955	7,375,217
Total Current Liabilities	9,486,177	14,115,645
Noncurrent Liabilities		
Deferred tax liabilities – net	481,619	490,820
Bonds payable - net (Note 4)	631,833	566,571
Long-term liabilities - net of current portion (Note 3)	17,691,362	11,326,241
Due to affiliates	11,806,300	10,080,527
Total Noncurrent Liabilities	30,611,114	22,464,159
Total Liabilities	40,097,291	36,579,804
Stockholders' Equity		
Capital stock	6,356,976	6,356,976
Additional paid-in capital	2,618,773	2,618,773
Retained earnings	86,980	780,378
Total Stockholders' Equity	9,062,729	9,756,127
	P 49,160,020	**P** 46,335,931

Note: Accounting principles and methods of computation used in the annual audited financial statements as of December 31, 2003 were also applied in the interim financial statements as of June 30, 2004 and 2003.

DIGITAL TELECOMMUNICATIONS PHILS., INC.

CONSOLIDATED STATEMENTS OF INCOME

(In Thousand Pesos except Loss Per Share)

	For the Six Months ended June 30 (Unaudited)		For the Three Months ended June 30 (Unaudited)	
	2004	**2003**	**2004**	**2003**
NET REVENUES	**P** 3,494,653	**P** 3,121,669	**P** 1,738,334	**P** 1,829,421
COSTS AND EXPENSES				
Operating and general expenses	2,410,732	1,974,006	1,249,905	1,295,275
Depreciation and amortization	1,185,062	1,238,656	594,826	648,491
	3,595,794	3,212,662	1,844,731	1,943,766
LOSS FROM OPERATIONS	(101,141)	(90,993)	(106,397)	(114,345)
OTHER CHARGES - Net	(652,699)	(613,313)	(330,912)	(334,023)
LOSS BEFORE INCOME TAX	(753,840)	(704,306)	(437,309)	(448,368)
PROVISION FOR INCOME TAX	(60,442)	(225,711)	(43,375)	(143,373)
NET LOSS	**P** (693,398)	**P** (478,595)	**P** (393,934)	**P** (304,995)
BASIC LOSS PER SHARE	**P** (0.10908)	**P** (0.07529)	**P** (0.06197)	**P** (0.04798)
DILUTED LOSS PER SHARE	**P** (0.10385)	**P** (0.07168)	**P** (0.05900)	**P** (0.04568)

Note: Accounting principles and methods of computation used in the annual audited financial statements as of December 31, 2003 were also applied in the interim financial statements as of June 30, 2004 and 2003.

DIGITAL TELECOMMUNICATIONS PHILS., INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousand Pesos except no. of shares and par value)

		June 30		
		2004		**2003**
		(Unaudited)		**(Unaudited)**
CAPITAL STOCK				
Capital stock - P 1 par value				
Authorized - 9,000,000,000 common shares				
Issued - 6,356,976,300 shares	**P**	6,356,976	**P**	6,356,976
ADDITIONAL PAID-IN CAPITAL		2,618,773		2,618,773
RETAINED EARNINGS				
Balance, beginning of the period		780,378		2,409,111
Effect of Adoption of SFAS 38 / IAS 38 (Note 1)				(366,324)
Net loss for the period		(693,398)		(478,595)
Balance, end of the period		86,980		1,564,192
TOTAL STOCKHOLDERS' EQUITY	**P**	9,062,729	**P**	10,539,941

Note: Accounting principles and methods of computation used in the annual audited financial statements as of December 31, 2003 were also applied in the interim financial statements as of June 30, 2004 and 2003.

DIGITAL TELECOMMUNICATIONS PHILS., INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousand Pesos)

	For the Six Months Ended June 30 2004	2003
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	P (693,398)	P (478,595)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,185,062	1,238,656
Provision for probable losses	310,660	181,785
Provision for income tax - deferred	(63,221)	(234,007)
Equity in net loss of an investee	6,330	-
Amortization of discounts on bonds payable	59,156	
Changes in operating assets and liabilities		
Decrease (Increase) in:		
Accounts receivable	(89,378)	119,243
Inventories and supplies	(200,938)	197,055
Prepaid expenses and other current assets	(561,369)	(221,253)
Increase (decrease) in accounts payable and accrued exp.	574,796	799,543
Net cash provided (used in) by operating activities	527,700	1,602,427
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(3,223,716)	(3,801,038)
(Increase) Decrease in:		
Due from affiliates	19,293	258,493
Other assets	(289,844)	1,803,409
Net cash provided by (used in) investing activities	(3,494,267)	(1,739,136)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in long term liabilities:		
Proceeds from loans	13,754,999	372,063
Payment of loans and financial lease	(12,598,559)	(875,589)
Increase (decrease) in due to affiliates	1,725,773	730,264
Net cash provided by (used in) financing activities	2,882,213	226,738
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS - CAPITALIZED	9,416	(1,011)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(74,938)	89,018
CASH AND CASH EQUIVALENTS AT BEG OF PERIOD	637,362	615,798
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 562,424	P 704,816

Note: Accounting principles and methods of computation used in the annual audited financial statements as of December 31, 2003 were also applied in the interim financial statements as of June 30, 2004 and 2003.

DIGITAL TELECOMMUNICATIONS PHILS., INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the Philippines (Philippine GAAP) and under the historical cost convention.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with Philippine GAAP requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be recorded in the financial statements when determinable.

Changes in Accounting Policies

On January 1, 2003, the Group adopted the following accounting standards:

a. Statement of Financial Accounting Standards (SFAS) 10/International Accounting Standard (IAS) 10, *Events After the Balance Sheet Date*, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events.

b. SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items. The adoption of this standard did not result in restatement of prior year financial statements.

c. SFAS 38/IAS 38, *Intangible Assets*, establishes the criteria for the recognition and measurement of intangible assets. Intangible assets that are recognized should be amortized generally over 20 years. The new standard also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. The Group's adoption of SFAS 38/IAS 38 in 2003 resulted in a retroactive adjustment to retained earnings as of January 1, 2003 amounting to ₱366.3 million related to the write-off of unamortized preoperating expenses.

New Accounting Standards Subsequent to 2003

The Accounting Standards Council has approved the following accounting standards which will be effective subsequent to 2003:

a. SFAS 12/IAS 12, *Income Taxes*, effective in 2004, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of balance sheet liability method of accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. This standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.

b. SFAS 17/IAS 17, *Leases*, effective in 2004, prescribes the accounting policies and disclosures applicable to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

   A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The lessee should also depreciate the leased assets. On the other hand, the lessee should expense operating lease payments generally on straight-line basis.

   A lessor is required to record finance leases as receivables at an amount equal to the net investment in the lease. Lease income should be recognized on the basis of a constant periodic rate of return on the lessor's outstanding net investment. On the other hand, a lessor should present as an asset and depreciate accordingly assets that are subject to operating leases.

c. SFAS 21/IAS 21, *The Effects of Changes in Foreign Exchange Rates*, effective in 2005, provides restrictive conditions for the capitalization of foreign exchange losses. The Group will adopt SFAS 21/IAS 21 in 2005 on a retroactive basis. Upon adoption in 2005, any undepreciated capitalized foreign exchange losses, net of borrowing costs, will be adjusted against beginning retained earnings and prior years' financial statements presented will be restated. Borrowing costs during the construction period shall continue to be capitalized to the property account.

Principles of Consolidation

The consolidated financial statements include the accounts of Digital Telecommunications Phils., Inc. (The Company) and its wholly owned subsidiaries, Digitel Mobile Phils., Inc. (DMPI) and Digitel Information Technology Services, Inc. (DTSI).

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated.

Revenue Recognition

Net revenues include the value of all telecommunications services provided, net of free usage allocations, discounts and promotions credited to the subscribers' bills. Revenues are recognized when earned and stated net of the share of other foreign and local carriers and content providers, if any, under existing correspondence and interconnection, and settlement agreements.

Telecommunications services provided to postpaid subscribers are billed throughout the month according to the billing cycle of subscribers. As a result of billing cycle cut-off, service revenues earned but not yet billed at end of month are estimated and accrued. These estimates are based on actual usage less estimated free usage using a historical ratio of free over billable usage.

Inbound revenues and outbound charges are based on agreed transit and termination rates with other foreign and local carriers and content providers. Inbound revenues represent settlement received from telecommunications providers who sent traffic to the Group's network, while outbound charges represent settlement to telecommunications providers for traffic originating from the Group's network. Uncollected inbound revenues are shown under Trade Receivables account in the balance sheets while unpaid outbound charges are shown under Accounts Payable and Accrued Expenses account in the balance sheets.

Both the inbound revenues and outbound charges are accrued based on actual volume of traffic monitored by the Group from the switch. Adjustments are made to the accrued amount for discrepancies between the traffic volume per Group's records and per records of other carriers. The adjustments are recognized as these are determined and are mutually agreed upon by the parties.

Installation fees received from landline subscribers are also credited to Net Revenues account shown in the statements of income. The related labor costs on installation, which exceed the installation fees, are also charged against current operations.

Proceeds from sale of handsets, phonekits, accessories and subscriber identity module (SIM) cards/packs and one-time registration fees received from certain mobile subscribers are recognized upon receipt and are included under Net Revenues account in the statements of income.

The proceeds from sale of prepaid cards are initially recognized as deferred revenues shown under Accounts Payable and Accrued Expenses account in the balance sheets. Revenue is realized upon actual usage of the airtime value of the card, net of free service allocation, or expiration of the unused value of the card, whichever comes earlier. Interconnection fees and charges arising from the actual usage of prepaid cards are recorded as incurred.

<u>Deferred Commissions and Subsidies</u>

Subscriber acquisition costs pertaining to postpaid subscription, which primarily include commissions and handset subsidies, are deferred and amortized over the base contract period, which is 24 months from the date in which they are incurred. Deferred commissions and subsidies are shown under Other Assets account in the balance sheets. The related amortizations of subscriber acquisition costs are charged against current operations.

The Company performs an overall realizability test to support the deferral of the subscriber acquisition costs. An overall realizability test, a basis to estimate net cash inflow, is done by determining the minimum contractual revenue after deduction of direct costs associated with the service contract over the base contract period. This is in accordance with the provisions of Financial Accounting Standards Board, SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, (as explained in the Staff Accounting Bulletin (SAB) No. 104, *Topic 13: Revenue Recognition*) which provides that costs can be deferred and amortized if there is a nonrefundable contract or a reliable basis for estimating net cash inflows under a revenue producing contract which exists to provide a basis for recovery of incremental direct costs.

<u>Cash and Cash Equivalents</u>

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 with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of change in value.

Accounts Receivable
Accounts receivable are recognized and carried at billable amounts less an 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 on a continuous basis.

Inventories and Supplies
Inventories and supplies are stated at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method. NRV is the selling price in the ordinary course of business less direct cost to sell.

Investments
The Company's investments in wholly-owned subsidiary DMPI and 40%-owned joint venture, Digitel Crossing (DC), are accounted for under the equity method of accounting in The Company's financial statements. The investments are carried at cost plus post-acquisition changes in The Company's share of net assets of the subsidiary and associate, less any impairment in value. The statements of income reflect The Company's share of the results of operations of the subsidiary and associate.

Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset.

Property and Equipment
Property and equipment, except for land, are carried at cost less accumulated depreciation and 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 purchase price, including import duties, capitalized foreign exchange adjustments, capitalized borrowing costs during construction period, and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged against current operations 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. When property and equipment are retired or otherwise disposed of, both the cost and the related accumulated depreciation and amortization, and any impairment losses are removed from the accounts, and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets as follow:

	Years
Buildings and improvements	25
Central office equipment	15
Investments in cable systems	15
Outside plant facilities	15
Telecommunications facilities under capital lease	15
Vehicle and work equipment	5 - 15

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

Investments in cable systems include the cost of The Company's indefeasible right of use of a submarine fiber optic cable system. The corresponding minimum capacity purchase obligation is included in the Long-term Liabilities account (see Note 3).

Projects under construction represent properties under construction and are stated at cost. This includes cost of construction, borrowing costs and other direct costs. Projects under construction are transferred to the related property and equipment account when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are complete and ready for service. Projects under construction are not depreciated until such time as the relevant assets are completed and put into operational use.

Impairment of Assets

Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the statements of income. Recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less cost to dispose, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible for the cash generating unit to which the asset belongs.

Other Investments

Effective in 2002, the investment in DITSI is accounted for under the cost method after its assets and liabilities and its business have been assumed by The Company. Previously, such investment was accounted for under the equity method. The carrying amount (previously accrued) of the investment at that date became the cost of the investment in DITSI after the transfer.

Stock Option Plans

The Company has stock option plans for the granting of non-transferable options to management and employees of the company, whereby management and employees are granted to purchase a fixed number of shares of stock at a stated price during a specified period. Options exercised will be recorded at the option price.

Pension Costs

Pension costs represent estimated retirement benefits required to be paid under Republic Act No. 7641 (R.A. No. 7641) to qualified 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 and equipment. The capitalization of borrowing costs as part of the cost of property and equipment: (a) commences when the expenditures and borrowing costs are being incurred during the installation and related activities necessary to prepare the property and equipment for their intended use are in progress; (b) is suspended during extended periods when active development is interrupted; and (c) ceases when substantially all the activities necessary to prepare the property and equipment for their intended use are complete. These costs are amortized using the straight-line method over the estimated useful lives of the related property.

Operating Lease

Lease of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under an operating lease are recognized as an expense based on the terms of the lease agreements.

Foreign Exchange Transactions

Foreign currency denominated assets and liabilities are translated using the Philippine Dealing System weighted average rate prevailing at balance sheet date. Foreign exchange gains or losses arising from foreign currency transactions and revaluation adjustments of foreign currency assets and liabilities are credited to or charged against current operations.

Under Philippine GAAP, any exchange difference that result from a devaluation or from depreciation of a currency against which there is no practical means of hedging and that affect liabilities arising directly on the acquisition of assets invoiced and payable in foreign currency is included in the carrying amount of the related assets.

Consistent with Philippine GAAP, the Group capitalizes as part of the cost of the assets acquired or constructed, foreign exchange translation adjustments on foreign currency liabilities incurred in the acquisition and construction of property and equipment.

Income Taxes

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

Earnings (Loss) Per Share

Basic earnings (loss) per share is determined by dividing net income (loss) by the weighted average number of common shares issued and outstanding during the year after giving retroactive adjustment to any stock dividend or stock split declared in the current year. Diluted earnings (loss) per share is determined by dividing net income (loss) applicable to common stock plus interest and amortization expense (net of income tax) on securities assumed to be converted by the weighted average number of common shares issued and outstanding during the year after giving effect to the assumed conversion of potential common shares and the retroactive effect of stock dividend or stock split declared.

Segment Reporting

The Group's major operating business units are the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 7 to the financial statements. The Group generally accounts for inter-segment revenues and expenses at agreed transfer prices.

The Group operates in one geographical location (Philippines). Thus, information on geographical segmentation is no longer presented.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) where, as a result of a past event, 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.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

Post-period-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

2. Accounts Payable and Accrued Expenses

This account consists of:

	(In thousands)
Trade payables	₱ 3,586,005
Accrued expenses	2,274,494
Connecting carriers	335,897
Others	1,118,826
	₱ 7,315,222

3. Long-term Liabilities

This account consists of:

	(In thousands)
Suppliers' credits and bank financing:	
Payable semi-annually with maturities up to 2011, at interest rates ranging from .75% to 2.0% over 180-day London Interbank Offered Rate (LIBOR)	₱16,218,221
Payable quarterly up to 2010, at interest rate of 1.5% over 90-day LIBOR	634,884
Financial lease obligation	2,475,540
Minimum capacity purchase agreement	533,672
	19,862,317
Less current portion	2,170,955
	₱17,691,362

The foregoing liabilities, except for the financial lease obligation and the liability under the minimum purchase agreement, are guaranteed up to a certain extent by The Company's majority stockholders and chattel mortgages on specific assets financed. In addition, the covering loan agreements of such liabilities contain covenants which, among others, restrict the incurrence of loans or debts not in the ordinary course of business, merger or disposition of any substantial portion of The Company's assets, distribution of capital or profits, redemption of any of its issued shares, reduction of The Company's registered and paid-up capital and maintenance of certain debt to equity ratios.

4. Bonds Payable

On December 8, 2003, The Company issued Zero Coupon Convertible Bonds Due 2013 (the Bonds) with face value of US$31.11 million and issue price of US$10.02 million. The outstanding balance of the Bonds amounted to US$10.19 million or ₱566.57 million and US$11.25 million or ₱631.83 million in December 31, 2003 and June 30, 2004, respectively.

The Bonds are redeemable at the option of The Company, in whole or in part, at the end of each year starting one year after the issue date and every year thereafter at the following redemption dates and values:

Redemption Date	Redemption Value*
End of 1st year from issue date	US$35.29
End of 2nd year from issue date	38.75
End of 3rd year from issue date	42.63
End of 4th year from issue date	46.97
End of 5th year from issue date	51.83
End of 6th year from issue date	57.28
End of 7th year from issue date	63.38
End of 8th year from issue date	70.21
End of 9th year from issue date	77.87
End of 10th year from issue date	86.44

* Per US$100 of face value

Alternately, the bondholders will have the right to convert the Bonds into common shares of The Company at redemption date. The number of conversion shares to be received by the bondholders upon exercise of the conversion right is equivalent to the total redemption value, which the bondholders would have received if the Bonds were redeemed multiplied by the Philippine Peso-US Dollar exchange rate for the relevant date divided by the ₱1 par value. Unless previously converted, purchased and cancelled or redeemed, the Bonds shall be converted into the common shares of The Company at the end of the tenth year after the issue date.

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of The Company and shall at all times rank pari passu and without preference among themselves and at least equally with all other present and future unsubordinated, unsecured obligations of The Company, except as may be preferred by virtue of mandatory provision of law.

The bondholders have the option, through a resolution approved by 75% of the face value of the Bonds then outstanding, to require a lien on unencumbered assets of The Company not subject to a dispute, valued at approximately US$200.0 million, subject to the limitations, conditions and restrictions of a Mortgage Trust Indenture (MTI). The MTI will be administered by a Security Trustee appointed in accordance with the MTI.

The proceeds from the sale of the Bonds will be used by The Company to partially fund the purchase of equipment for GSM Project Phases 1 and 2 valued at approximately US$200.0 million with completion of approximately 681 cellular sites covering key urban cities nationwide pursuant to a PA issued by the NTC.

5. Executive Stock Option Plan

The Company's BOD and stockholders approved on August 10, 1994 and November 7, 1994, respectively, an Executive Stock Option Plan (ESOP) which provides opportunity for all directors, officers and managers of The Company to purchase an ownership interest in The Company's common stock. The ESOP covers the offering of 320 million shares out of the authorized but unissued shares, or issued shares reacquired by The Company to all eligible participants of the ESOP at an exercise price of ₱1.50 per share. Under the ESOP guidelines, eligible participants will be allocated an aggregate amount of shares determined in accordance with their rank, seniority and performance. The option to purchase shares under the ESOP may be exercised after completion of at least five years of continuous service to The Company by paying the full amount in cash. No options have been awarded pending the Securities and Exchange Commission approval.

6. Loss Per Share

Loss per share amounts were computed as follow:

		(In thousand pesos except earnings per share)
For Basic EPS		
a.	Net loss	(693,398)
b.	Number of shares outstanding	6,356,976
c.	Loss per share (a/b)	(0.10908)
For Diluted EPS		
a.	Net loss	(693,398)
b.	Number of shares outstanding after dilution	6,676,976
c.	Loss per share (a/b)	(0.10385)
Shares issued		6,356,976
Executive Stock Option Plan (ESOP) offering		320,000
Number of shares after dilution		6,676,976

7. Segment Information

The consolidated segment information follows:

June 2004

	Wireless Communication Services	Wireline Voice Communication Services	Wireline Data Communication Services	Eliminations	Total
Revenues	₱675,848	₱2,656,071	₱183,985	(₱21,251)	₱3,494,653
Operating expenses	1,265,673	1,090,367	75,943	(21,251)	2,410,732
EBITDA	(589,825)	1,565,704	108,042	–	1,083,921
Depreciation and amortization	26,668	1,124,277	34,117	–	1,185,062
EBIT	(616,493)	441,427	73,925	–	(101,141)
Other expenses – net	(6,838)	(645,742)	(119)	–	(652,699)
Income (loss) before income tax	(₱623,331)	(₱204,315)	₱73,806	–	(₱753,840)
Segment assets	₱5,699,938	₱46,430,124	₱2,366,261	(₱6,043,519)	₱48,452,804
Segment liabilities	₱3,478,118	₱37,686,714	₱2,251,852	(₱3,801,013)	₱39,615,671

Segment assets of the group do not include net deferred tax assets while segment liabilities do not include income tax payable and net deferred tax liabilities.

8. Agreements and Commitments

The Group has existing agreements with various telecommunication carriers and operators, local exchange carriers, international exchange carriers, CMTS operators, paging and trunk radio operators, provincial operators and with the Philippine Government to cover the following services:

a. International telecommunications operation services between servicing points in another country where the other party is domiciled and the Group's terminals servicing points in the Philippines.

b. National and international private leased circuit services on a reciprocal basis between the other party and the Group in the timely support of services to their respective customers.

c. Internet transport and access services and other telecommunications services that may be introduced from time to time.

d. Interconnection of the Group's CMTS network with the CMTS, local exchange, inter-exchange and international gateway facilities with the telecommunications network of other domestic telecommunications carriers.

The Group has a commitment to construct, install, operate and maintain a nationwide CMTS using GSM technology. Prior to the assignment of the PA to DMPI, The Company entered into a supply agreement with foreign suppliers including their local affiliates for a total contract price of ₱19.2 billion for Phases 1 to 4 of the said project. As of June 30, 2004, the Group has incurred costs totaling ₱12.7 billion for the said project. This is funded through bank financing and advances from affiliate.

9. Supply Contract with NEC

On October 8, 2002, NEC filed a Request for Arbitration with the International Chamber of Commerce (ICC), claiming a total amount of US$237.0 million, together with overdue interest and other fees and charges against The Company, as payment for the outstanding balance under the turnkey supply and installation contract for the supply of 300,000 fixed lines for The Company's Public Switched Telephone Network Project (referred to as the "Supply Contract").

On March 19, 2003, NEC filed a petition with the Philippine Regional Trial Court, requesting that it recognizes the request for arbitration it filed with the ICC Arbitral Tribunal (ICCAT) and permit NEC to apply for judicial relief in support of the arbitration and/or any award the ICCAT may make in the future. NEC also sought to prevent The Company from selling, disposing or encumbering any of the equipment supplied under the Supply Contract. The Company opposed the NEC's petition on the grounds that NEC has no legal capacity to sue under Philippine Laws, that the NTC has jurisdiction to hear the case and not the local courts, and that the petition was premature since no arbitral award had been rendered. The Philippine court upheld all of The Company's claims and dismissed NEC petition on April 30, 2003.

On May 15, 2003, NEC filed a motion to intervene in the NTC case to oppose the transfer of PA to operate and maintain a CMTS-GSM to its wholly owned subsidiary DMPI. The motion was denied by the NTC; consequently, on August 9, 2003, NEC filed a petition with urgent application for temporary restraining order and writ of preliminary injunction with the Court of Appeals (CA).

On September 29, 2003, The Company filed a complaint and request for adjudication against NEC in the Construction Industry Arbitration Commission (CIAC).

On January 21, 2004, The Company and NEC agreed to fully and finally settle all claims, liabilities, causes of action, suits, damages and expenses that either party has or may have, either now or in the future, against the other arising out of, relating to or in any way in connection with the Supply Contract dated April 4, 1995, and the Contract dated July 8, 1999 which was entered to supplement the Supply Contract. The Company and NEC further agreed to withdraw and terminate the ICC case, CA case, NTC case and CIAC case.

10. Other Matters

Key Performance Indicators

Management assessed The Group's performance based on the following key performance indicators:

	2004	2003	YoY change(%)
Revenues	3,494.7	3,121.7	11.9
EBITDA margin [a]	31.0%	36.8%	5.8
EBIT margin [b]	0.3%	0.3%	-
Cash flow provided by operating activities	527.7	1,602.4	67.1
Debt to equity ratio [c]	2.3	2.0	15.0

[a] EBITDA is defined as Earnings Before Interest, Taxes, Depreciation, Amortization and Other Income/Charges. EBITDA is computed by deducting cost and expenses (excluding Depreciation and Amortization) from net operating revenues. EBITDA margin is calculated by dividing EBITDA over net operating revenues.

[b] EBIT is defined as Earnings Before Interest, Taxes and Other Income/Charges. EBIT is computed by deducting cost and expenses from net operating revenues. EBIT margin is calculated by dividing EBIT over net operating revenues.

[c] Debt to equity ratio is computed by dividing total debt (excluding accounts payable and accrued expenses, income tax payable, deferred tax liabilities and due to affiliates) to total equity.

Dividends

The Company historically has not paid cash dividends on the shares. Any payment of cash dividends on the shares in the future will depend upon The Company's earnings, cash flow, financial condition, capital investment requirements and other factors, including certain restrictions on dividends imposed by the terms of The Company's credit and loan agreements.

Seasonality or Cyclicality of Interim Operations

There was no seasonal aspect that had a material effect on The Group's financial condition nor results of operations.

Material Events

a. Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.
  - We are not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.
  - In spite of The Company's low current ratio as of June 30, 2004, it has not defaulted in paying its currently maturing obligations. In addition, obligations of The Company are guaranteed up to a certain extent by The Company's majority stockholders.

b. 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.
  - We are not aware 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.

c. Any significant elements of income or loss that did not arise from issuer's continuing operations.
  - We are not aware of any significant elements of income or loss that did not arise from the issuer's continuing operations.

d. Any material events that were unusual because of their nature, size or incidents affecting assets, liabilities, equity, net income, or cash flows.
  - We are not aware of any material events that were unusual because of their nature, size, or incidents affecting assets, liabilities, equity, or cash flows.

e. Any material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
  - We are not aware of any material events subsequent to the end of the interim period that has not been reflected in the financial statements of the interim period.

f. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.
  - We are not aware of any changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

g. Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
  - We are not aware of any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

h. All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
  - We are not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

DIGITAL TELECOMMUNICATIONS PHILS.
AGING OF ACCOUNTS RECEIVABLE - SUBSCRIBERS
June 30, 2004
(In Thousand Pesos)

Current	₱	789,767
61- 90 days		135,088
91-120 days up		556,475
Total	₱	**1,481,330**
Add: Inter-carrier (net)		397,252
Total Accounts receivable – trade	₱	**1,878,582**

Note: Aging on Inter-carrier is not applicable.