

PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
June 27, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Date of event requiring this shell company report _____

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Name of each exchange</u> <u>on which registered</u>
Common Capital Stock, Par Value Five Philippine Pesos Per Share	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing one share of Common Capital Stock	New York Stock Exchange

** Registered on the New York Stock Exchange not for trading but only in connection with the registration of American Depositary Shares pursuant to the requirements of such stock exchange.*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

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10.500% Notes due 2009

11.375% Notes due 2012

8.350% Notes due 2017

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as at the close of the period covered by the annual report.

As at December 31, 2006:

188,434,695 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share

442,375,057 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

-

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

-

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

-

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

TABLE OF CONTENTS

CERTAIN
CONVENTIONS
AND TERMS
USED IN THIS
REPORT

FORWARD-LOOKING
STATEMENTS

PART I

	Identity of Directors, Senior Management and Advisors
Item 1.	Offer Statistics and Expected Timetable
Item 2.	Key Information
Item 3.	Selected Financial Data Capital Stock Dividends Declared Dividends Paid Exchange Rates Risk Factors
Item 4.	Information on the Company Overview Historical Background and Development Organization Strengths Strategy Business Infrastructure Interconnection Agreements

	Licenses and Regulation Competition Environmental Matters Intellectual Property Rights Properties Unresolved Staff
Item 4A.	Comments Operating and Financial Review and
Item 5.	Prospects Overview Critical Accounting Policies Results of Operations Liquidity and Capital Resources Impact of Inflation and Changing Prices Directors, Senior Management and Employees
Item 6.	Directors, Key Officers and Advisors Terms of Office Family Relationships Compensation of Key Management Personnel of the PLDT Group Long-Term Incentive Plan Executive Stock Option Plan

	Share Ownership Board of Directors Audit, Nomination, Executive Compensation and Technology Strategy Committees Directors and Officers Involvement in Certain Legal Proceedings Employees and Labor Relations Pension and Retirement Benefits Major Shareholders and Related Party
Item 7.	Transactions Related Party Transactions Financial
Item 8.	Information Consolidated Statements and Other Financial Information Legal Proceedings Dividend Distribution Policy
Item 9.	The Offer and Listing Common Capital Stock and American Depositary Shares (ADSs)
Item 10.	Additional Information

	Articles of Incorporation and By-Laws
	Material Contracts
	Exchange Controls and Other
	Limitations Affecting Securities Holders
	Taxation
	Documents on Display
	Quantitative and Qualitative Disclosures
Item 11.	About Market Risks
	Liquidity Risk Management
	Foreign Exchange Risk Management
	Interest Rate Risk Management
Item 12.	Description of Securities Other than Equity Securities
PART II	
Item 13.	Defaults, Dividend Arrearages and Delinquencies
	Material Modifications to the Rights of Security Holders and
Item 14.	Use of Proceeds
Item 15.	Controls and Procedures
Item 16A.	Audit Committee Financial

	Expert Code of Business Conduct and Ethics
Item 16B.	
Item 16C.	Principal Accountant Fees and Services
Item 16D.	Exemption from the listing Standards for Audit Committees
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchaser

PART III

Item 17.	Financial Statements
Item 18.	Financial Statements
Item 19.	Exhibits

EXHIBIT INDEX

CERTIFICATION

CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

Unless the context indicates or otherwise requires, references to we, us, our or PLDT Group mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to PLDT mean Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see *Note 2 Basis of Consolidated Financial Statements Preparation* to the accompanying consolidated financial statements in Item 18 for a list of these subsidiaries, including a description of their respective principal business activities).

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

All references to the Philippines contained in this report mean the Republic of the Philippines and all references to the U.S. or the United States are to the United States of America.

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US\$ are to the lawful currency of the United States, all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan, and all references to Euro or € are to the lawful currency of the European Union. Unless otherwise indicated, translations of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php49.045 to US\$1.00 on December 31, 2006. On June 26, 2007, the volume weighted average exchange rate quoted was Php46.222 to US\$1.00.

In this report, each reference to:

- ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, our wholly-owned subsidiary;
- AIL means ACeS International Limited, a 36.99%-owned associate of ACeS Philippines;
- Airborne Access means Airborne Access Corporation, a 51%-owned subsidiary of ePLDT;
- ARPU means average monthly revenue per user;

- BCC or Bonifacio Communications Corporation, our 75%-owned subsidiary;
- BSP means Bangko Sentral ng Pilipinas;
- ClarkTel means PLDT Clark Telecom, Inc., our wholly-owned subsidiary;
- CyMed means CyMed, Inc., a wholly-owned subsidiary of SPI;
- Digital Paradise means Digital Paradise, Inc., a 75%-owned subsidiary of ePLDT;
- DoCoMo means NTT DoCoMo, Inc.;
- DSL means digital subscriber line;
- ePLDT means ePLDT, Inc., our wholly-owned subsidiary;
- ePLDT Ventus means the umbrella brand name for ePLDT's call center business, including Ventus, Vocativ and Parlance;
- First Pacific means First Pacific Company Limited;
- First Pacific Group means First Pacific and its Philippine and other affiliates;
- GAAP means generally accepted accounting principles;
- GSM means global system for mobile communications;

- Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;
- Level Up! means Level Up!, Inc., a 60%-owned subsidiary of ePLDT;
- Mabuhay Satellite means Mabuhay Satellite Corporation, our 67%-owned subsidiary;
- Maratel means PLDT-Maratel, Inc., our 97.5%-owned subsidiary;
- netGames means netGames, Inc., an 80%-owned subsidiary of ePLDT;
- NTC means the National Telecommunications Commission of the Philippines;
- NTT means Nippon Telegraph and Telephone Corporation;
- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of Nippon Telegraph and Telephone Corporation of Japan;
- NTTC-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;
- PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;
- Parlance means Parlance Systems, Inc., a wholly-owned subsidiary of ePLDT;
- PFRS means Philippine Financial Reporting Standards;

- Piltel means Pilipino Telephone Corporation, a 92.1%-owned subsidiary of Smart;
- PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;
- PLDT Global means PLDT Global Corporation, our wholly-owned subsidiary;
- SEC means the Securities and Exchange Commission;
- SIM means subscriber identification module;
- SMS means short messaging service;
- Smart means Smart Communications, Inc., our wholly-owned subsidiary;
- Smart Broadband means Smart Broadband, Inc. (formerly Meridian Telekoms, Inc.), our wireless broadband provider and a wholly-owned subsidiary of Smart;
- SPi means SPi Technologies, Inc., a wholly-owned subsidiary of ePLDT;
- SubicTel means Subic Telecommunications Company, Inc., our wholly-owned subsidiary;
- Telesat means Telesat, Inc., our 94.4%-owned subsidiary;
- VAS means value-added service;
- VAT means value-added tax;

- Ventus means ePLDT Ventus, Inc., a wholly-owned subsidiary of ePLDT;
- Vocativ means Vocativ Systems, Inc., a wholly-owned subsidiary of ePLDT;
- VSAT means very small aperture terminal;
- WAP means wireless application protocol;
- W-CDMA means wireless-code division multiple access; and
- Wolfpac means Wolfpac Mobile, Inc., our wireless content operator and a wholly-owned subsidiary of Smart.

FORWARD-LOOKING STATEMENTS

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as believe, plan, anticipate, continue, estimate, expect, may, will or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information Risk Factors. When considering forward-looking statements, you should keep in mind the description of risks and other cautionary statements in this report.

You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us

to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The selected consolidated financial information below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes, included elsewhere in this report. The consolidated financial statements have been prepared and presented in conformity with U.S. GAAP.

Prior to the filing of our Annual Report on Form 20-F in respect of the year ended December 31, 2002, the consolidated financial statements included in our Annual Reports on Form 20-F filed with the U.S. Securities and Exchange Commission, or U.S. SEC, were prepared in conformity with PFRS. PFRS varies in certain significant respects from U.S. GAAP. A description of the significant differences between U.S. GAAP and PFRS and a quantitative reconciliation of such differences in the net loss and stockholders' equity to U.S. GAAP was disclosed in a note to our previously filed consolidated financial statements.

**Consolidated Financial Data
Years Ended December 31,**

2006 2006(1) 2005 2004 2003 2002
(in millions, except operating income per share, earnings per common share, ratio of earnings to fixed charges and dividends declared per common share)

Amounts in conformity with U.S. GAAP:

Statements of Operating Data:

Operating Revenues	Php127,536	US\$2,600	Php123,335	Php121,173	Php111,200	Php93,831
Service	125,004	2,549	120,348	114,904	100,486	81,686
Non-service	2,532	52	2,987	6,269	10,714	12,145
Operating Expenses	79,357	1,618	74,821	72,634	77,821	81,802
Operating Income	48,179	982	48,514	48,539	33,379	12,029
Operating income per share						
Basic	253.95	5.18	263.81	266.73	179.04	55.47
Diluted	253.95	5.18	255.15	252.20	165.37	52.23
Net income (loss)	33,598	685	40,603	28,101	11,045	(6,158)
Earnings per common share(2)						
Basic	174.90	3.57	217.84	146.32	47.20	(52.08)
Diluted	174.90	3.57	211.93	145.30	45.72	(52.08)

Balance Sheets Data:

Cash and cash equivalents	16,870	344	30,059	27,321	19,372	10,974
Total assets	264,195	5,387	269,709	279,041	276,362	269,387
Total long-term debt - net of current portion	69,542	1,418	93,516	131,377	160,464	171,283
Total debt(3)	86,059	1,755	112,313	159,455	186,407	191,668
Total liabilities(4)	154,607	3,152	176,980	215,145	236,630	240,622
Total stockholders' equity	106,173	2,165	79,595	48,079	24,746	16,413

Other Data:

Depreciation and amortization	28,130	574	27,855	20,098	21,812	17,566
Ratio of earnings to fixed charges(5)	8.1x	8.1x	5.9x	4.1x	2.0x	
Net cash provided by operating activities	61,201	1,248	66,280	63,107	42,582	39,722
Net cash used in investing activities	36,764	750	13,080	24,764	20,021	17,167
Net cash used in financing activities	36,916	753	49,470	30,325	14,135	15,954
Dividends declared to common shareholders	14,459	295	9,624			
Dividends declared per common share	78.00	1.59	56.00			

(1) We maintain our accounts in Philippine peso. For convenience, the peso financial information as at and for the year ended December 31, 2006, has been translated into U.S. dollars at the exchange rate of Php49.045 to US\$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2006. This translation should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.

(2) In 2006 and 2002, our convertible preferred shares were deemed anti-dilutive based on a calculation of the required dividends on preferred shares for each series of convertible preferred shares divided by the number of equivalent common shares assuming such preferred shares were converted into common shares and compared against the basic earnings per share. Since the amount of dividends on preferred shares over the equivalent number of common shares were greater than the basic earnings per share, the amounts for basic and diluted earnings per share

are the same.

(3) *Total debt represents current portion of long-term debt, long-term debt net of current portion and notes payable.*

(4) *Total liabilities on a consolidated basis represent the difference between total assets and minority interest in consolidated subsidiaries, preferred stock subject to mandatory redemption and stockholders equity.*

(5) *For purposes of this ratio, Earnings consist of income before provision for income tax (excluding PLDT's share in undistributed income of less than 50% owned affiliates) and fixed charges (excluding capitalized interest). Fixed charges consist of interest (including capitalized interest, discounts and other financing costs) on all indebtedness, amortization of deferred financing costs and the estimated financing component of rent expense (i.e., one-third of rent expense).*

Due to PLDT's net losses in 2002, the coverage ratio on a consolidated basis was less than 1.0x in that year. In order to achieve a coverage ratio of 1.0x, we would have had to generate additional consolidated earnings of Php2,463 million for the year ended December 31, 2002.

Capital Stock

The following table summarizes PLDT's capital stock outstanding as at December 31, 2006, 2005 and 2004.

	December 31,		
	2006	2005	2004
	(in millions)		
Serial Preferred Stock			
10% Cumulative Convertible Preferred Stocks			
A to EE	Php4,064	Php4,073	Php4,091
Series III			46
Convertible Preferred Stocks Subject to Mandatory Redemption			
Series V(1)		2	22
Series VI(1)	9	44	47
Series VII(2)		38	38
Cumulative Non-convertible Redeemable Preferred Stock			
Series IV	360	360	360
	Php4,433	Php4,517	Php4,604
Common Stock	Php942	Php904	Php851

(1) Preferred stock subject to mandatory redemption in 2008 (see Note 14 Preferred Stock Subject to Mandatory Redemption to the accompanying consolidated financial statements in Item 18 for further discussion).

(2) All shares of the Series VII Convertibles Preferred Stock were converted in 2006 (see Note 14 Preferred Stock Subject to Mandatory Redemption to the accompanying consolidated financial statements in Item 18 for further discussion).

Dividends Declared

The table sets forth dividend declarations on shares of PLDT's common stock in 2006:

Class	Declaration	Date		Payable	Per Share	Amount	
		Record				Per Share	Total
Common Stock	February 27, 2006	March 20, 2006	April 20, 2006	Php28.00	Php5,080		
	August 8, 2006	August 21, 2006	September 21, 2006	50.00	9,379		

In addition, on March 6, 2007, PLDT declared cash dividend of Php50 per share to common shareholders of record as at March 20, 2007 which was paid on April 20, 2007.

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements and the required prior written consents of certain creditors and preferred stockholders (for stock dividends), under certain conditions, in the declaration and payment of dividends as discussed in Note 12 Interest-bearing Financial Liabilities and Note 15 Stockholders Equity to the accompanying consolidated financial statements in Item 18. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until received in the form of dividends from such subsidiaries (see Note 15 Stockholders Equity to the accompanying consolidated financial statements in Item 18). Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, which acts as the dividend-disbursing agent, converts the peso dividends into U.S. dollars at the prevailing exchange rates, and remits the dollar proceeds abroad, net of withholding tax.

Dividends Paid

A summary of dividends paid per share of PLDT's common stock stated in both Philippine peso and U.S. dollars follows:

In Philippine Peso In U.S. Dollars

2002		
2003		
2004		
2005	56.00	1.142
2006	78.00	1.590
April 20	28.00	0.545
September 21	50.00	0.998
2007 (through April 20, 2007)	50.00	1.051

(Note: Dividends on PLDT's common stock were declared and paid in Philippine peso. For the convenience of the reader, the peso dividends are translated into U.S. dollars based on exchange rates on the respective dates of dividend payments).

Exchange Rates

The Philippine government does not administratively fix the exchange rate between the Philippine peso and the U.S. dollar. Since August 1, 1992, a market average rate has been determined daily in inter-bank trading using the Philippine Dealing System, known as the Philippine Dealing System Reference Rate. The Philippine Dealing System is a specialized off-floor direct dealing service for the trading of Philippine pesos-U.S. dollars by member banks of the Bankers Association of the Philippines and BSP, the central bank of the Philippines. All members of the Bankers Association of the Philippines are required to make their Philippine peso-U.S. dollar trades through this system, which was established by Telerate Financial Information Network of Hong Kong.

The following shows the exchange rates between the Philippine peso and the U.S. dollar, expressed in pesos per U.S. dollar, for the periods indicated, based on the volume-weighted average exchange rate for each business day in each of the periods presented:

	Year Ended December 31,			
	Period End	Average(1)	High(2)	Low(3)
2002	Php53.254	Php51.583	Php49.336	Php53.841
2003	55.586	54.215	52.021	55.767
2004	56.341	56.044	55.142	56.443
2005	53.062	55.085	53.062	56.321
2006	49.045	51.832	50.106	53.587
2007 (through June 26, 2007)	46.222	47.803	45.718	49.156

Source: Philippine Dealing System Reference Rate

(1) Simple average of exchange rates for the period.

(2) Highest exchange rate for the period.

(3) Lowest exchange rate for the period.

	Month			
	Period End	Average(1)	High(2)	Low(3)
2006				