PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 6-K
March 04, 2008

SEC Number **PW-55**
File Number

PHILIPPINE LONG DISTANCE

TELEPHONE COMPANY

(Company s Full Name)

Ramon Cojuangco Building

Makati Avenue, Makati City

(Company s Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)

(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2007

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

March 4, 2008

Securities and Exchange Commission

Money Market Operations Department

SEC Building, EDSA

Mandaluyong City

Attention: Director Justina Callangan

Corporations Finance Department

Gentlemen:

In accordance with Section 17.1(b) of the Securities Regulation Code and SRC Rule 17.1, we submit herewith five (5) copies of SEC Form 17-Q with Management s Discussion and Analysis and accompanying unaudited financial statements of the Company as at and for the year ended December 31, 2007.

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

/s/ Ma. Lourdes C. Rausa-Chan

MA. LOURDES C. RAUSA-CHAN

Corporate Secretary

COVER SHEET

	P	W	-	5	5	
	S.E.C. Registration No.					

P	H	I	L	I	P	P	I	N	E	L	O	N	G	D	I	S	T	A	N	C	E

T	E	L	E	P	H	O	N	E		C	O	M	P	A	N	Y					

(Company s Full Name)

R	A	M	O	N		C		O	J	U	A	N	G	C	O		B	L	D	G	.			

M	A	K	A	T	I		A	V	E	.		M	A	K	A	T	I		C	I	T	Y

(Business Address: No. Street City/Town/Province)

JUNE CHERYL A. CABAL-FURIGAY		816-8534
Contact Person		**Company Telephone Number**

1	2	3	1	SEC FORM 17-Q	0	6	Every 2nd Tuesday
Month		Day		FORM TYPE	Month		Day
Fiscal Year					Annual Meeting		

C	F	D		N/A
Dept. Requiring this Doc.				Amended Articles Number/Section

Total Amount of Borrowings

2,185,395

N/A

As of December 31, 2007 N/A

Total No. of Stockholders Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number		LCU

Document I.D.		Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE (SRC) AND

SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended December 31, 2007

-

2. SEC Identification Number PW-55 3. BIR Tax Identification No. 000-488-793

4. Philippine Long Distance Telephone Company

Exact name of registrant as specified in its charter

5. Republic of the Philippines

Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. Ramon Cojuangco Building, Makati Avenue, Makati City 0721

Address of registrant s principal office Postal Code

8. (632) 816-8556

Registrant s telephone number, including area code

9. Not Applicable

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

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

-

Common Capital Stock, Php5 par value 188,740,519 shares as of December 31, 2007

-

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

Yes [X] No [ ]

12. Check whether the registrant

(a) has filed all reports required to be filed by Section 17 of the SRC during the preceding ten months (or for such shorter period that the registrant was required to file such reports):

Yes [X] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Our consolidated financial statements as at December 31, 2007 (unaudited) and December 31, 2006 (restated) and for the years ended December 31, 2007 and 2006 and related notes (pages F-1 to F-101) are filed as part of this report on Form 17-Q.

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

In the following discussion and analysis of our financial condition and results of operations, unless the context indicates or otherwise requires, references to we, us, our or PLDT Group mean the Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to PLDT mean the Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (please see Note 2 Summary of Significant Accounting Policies and Practices to the accompanying unaudited consolidated financial statements for a list of these subsidiaries, including a description of their respective principal business activities).

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and the related notes. Our unaudited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with Philippine Financial Reporting Standards, which differ in certain significant respects from generally accepted accounting principles in the United States.

The financial information appearing in this report and in the accompanying unaudited consolidated financial statements is stated in Philippine pesos. All references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines; all references to U.S. dollars, US$ or dollars 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. Translations of Philippine peso amounts into U.S. dollars in this report and in the accompanying unaudited consolidated financial statements were made based on the exchange rate of Php41.411 to US$1.00, the volume weighted average exchange rate at December 31, 2007 quoted through the Philippine Dealing System.

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking 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 forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

(in millions, except for operational data, exchange rates and earnings per common share)	December 31, 2007	2006	Increase (Decrease) Amount	%
Consolidated Balance Sheets				
Total assets	Php242,558	Php244,518	(Php1,960)	(1)
Property, plant and equipment net	159,414	164,190	(4,776)	(3)
Cash and cash equivalents and short-term investments	30,862	25,197	5,665	22
Total equity	112,511	104,067	8,444	8
Notes payable and long-term debt	60,640	80,154	(19,514)	(24)
Net debt(1) to equity ratio	0.26x	0.53x		

	Years Ended December 31, 2007 (Unaudited)	2006(2) (Restated)	Increase (Decrease) Amount	%
Consolidated Statements of Income				
Revenues and other income	Php141,623	Php133,682	Php7,941	6
Expenses	88,366	91,452	(3,086)	(3)
Income before income tax	53,257	42,230	11,027	26
Net income attributable to equity holders of PLDT	36,014	35,148	866	2
Pre-tax income margin	38%	32%		
Net income margin	25%	26%		
Earnings per common share				
Basic	188.42	188.03	0.39	
Diluted	187.53	187.93	(0.40)	
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	77,375	67,759	9,616	14
Net cash used in investing activities	31,319	35,790	(4,471)	(12)
Capital expenditures	*24,824*	*20,674*	*4,150*	*20*
Net cash used in financing activities	44,456	44,128	328	1
Operational Data				
Number of cellular subscribers	30,041,030	24,175,384	5,865,646	24
Number of fixed line subscribers	1,724,702	1,776,647	(51,945)	(3)
Number of broadband subscribers	579,095	264,649	314,446	119
Fixed Line	*264,291*	*133,159*	*131,132*	*98*
Wireless	*314,804*	*131,490*	*183,314*	*139*
Number of employees	30,255	28,225	2,030	7
Fixed Line	*8,080*	*8,711*	*(631)*	*(7)*
Wireless	*5,415*	*5,358*	*57*	*1*
Information and Communications Technology	*16,760*	*14,156*	*2,604*	*18*

Exchange Rates	Php per US$
December 31, 2007	Php41.411
December 31, 2006	49.045
December 31, 2005	53.062

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(1) Net debt is derived by deducting cash and cash equivalents and short-term investments from total debt (notes payable and long-term debt).

(2) 2006 has been restated to reflect the change in revenue recognition for installation charges.

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main segments:

• *Wireless* wireless telecommunications services provided by Smart Communications, Inc., or Smart, and Pilipino Telephone Corporation, or Piltel, our cellular service providers; Smart Broadband, Inc., or SBI, our wireless broadband provider; Wolfpac Mobile, Inc., or Wolfpac, our wireless content operator; Mabuhay Satellite Corporation, or Mabuhay Satellite, ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines, and Telesat, Inc., or Telesat, our satellite and very small aperture terminal, or VSAT, operators;

• *Fixed Line* fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries, PLDT Clark Telecom, Inc., PLDT Subic Telecom, Inc., PLDT-Maratel, Inc., Piltel, PLDT Global Corporation, or PLDT Global, Smart-NTT Multimedia, Inc. and Bonifacio Communications Corporation, which together account for approximately 3% of our consolidated fixed line subscribers; and

• *Information and Communications Technology, or ICT* information and communications infrastructure and services for internet applications, internet protocol, or IP-based solutions and multimedia content delivery provided by ePLDT, Inc., or ePLDT; knowledge processing solutions provided by SPi Technologies, Inc. and its subsidiaries, or SPi Group (consolidated on July 11, 2006); customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through ePLDT Ventus, Inc., or Ventus, Parlance Systems, Inc., or Parlance, and Vocativ Systems, Inc., or Vocativ; internet access and online gaming services provided by Infocom Technologies, Inc., or Infocom, Digital Paradise, Inc., or Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Inc., or netGames, Airborne Access Corporation, or Airborne Access and Level Up!, Inc., or Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 Investments in Associates* to the accompanying unaudited consolidated financial statements.

We registered total revenues and other income of Php141,623 million in 2007, an increase of Php7,941 million, or 6%, as compared to Php133,682 million in 2006 primarily due to an increase in our service revenues by Php10,501 million largely from our wireless business and the full consolidation of the SPi Group in 2007. SPi was acquired and consolidated in July 2006, please see *Note 2 Summary of Significant Accounting Policies and Practices* to the accompanying unaudited consolidated financial statements for a discussion of ePLDT s acquisition of SPi.

Expenses decreased by Php3,086 million, or 3%, to Php88,366 million in 2007 from Php91,452 million in 2006, largely resulting from decreases in financing costs and depreciation and amortization, partly offset by higher professional and other contracted services, compensation and employee benefits, and selling and promotions expenses.

Net income attributable to equity holders of PLDT increased by Php866 million, or 2%, to Php36,004 million in 2007 from Php35,138 million in 2006. Consequently, our basic and diluted earnings per common share increased to Php188.42 and Php187.53 in 2007 from Php188.03 and Php187.93 in 2006, respectively, despite the increase in the weighted average number of common shares outstanding from 184.5 million in 2006 to 188.7 million in 2007.

Changes in Accounting Policies

Revenue Recognition on Installation Fees

In 2007, we changed our revenue recognition policy for fixed line installation fees and have elected to defer and amortize our installation fees and its corresponding costs over the expected average periods of the customer relationship of our fixed line subscribers. Prior to 2007, we recognized installation fees and its corresponding cost outright. We accounted for the change in accounting policy retroactively and accordingly restated our comparative financial statements to conform with the said change. Please see *Note 2 Summary of Significant Accounting Policies and Practices* to the accompanying unaudited consolidated financial statements.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues and other income, expenses and net income for the years ended 2007 and 2006. Most of our revenues are derived from our operations within the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total

(in millions)									
For the year ended December 31, 2007 (Unaudited)									
Revenues and other income	Php89,524		Php51,022		Php10,916		(Php9,839)	Php141,623	
Service	86,497		48,551		10,055		(9,627)	135,476	
Non-service	2,054		281		267		(122)	2,480	
Other income	973		2,190		594		(90)	3,667	
Expenses	43,793		43,354		11,127		(9,908)	88,366	
Income (loss) before income tax	45,731		7,668		(211)		69	53,257	
Net income (loss) for the year	30,730		5,273		(94)		69	35,978	
Net income attributable to equity holders of PLDT	30,635		5,270		30		69	36,004	
For the year ended December 31, 2006(1) (Restated)									
Revenues and other income	81,546		54,260		7,018		(9,142)	133,682	
Service	78,383		49,175		6,337		(8,920)	124,975	
Non-service	2,457		79		553		(122)	2,967	
Other income	706		5,006		128		(100)	5,740	
Expenses	44,692		48,535		7,367		(9,142)	91,452	
Income (loss) before income tax	36,854		5,725		(349)			42,230	
Net income (loss) for the year	30,376		5,276		(312)			35,340	
Net income (loss) attributable to equity holders of PLDT	30,097		5,274		(233)			35,138	
Increase (Decrease)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**Amount**	**%**
Revenues and other income	Php7,978	10	(Php3,238)	(6)	Php3,898	56	(Php697)	Php7,941	6
Service	8,114	10	(624)	(1)	3,718	59	(707)	10,501	8
Non-service	(403)	(16)	202	256	(286)	(52)		(487)	(16)
Other income	267	38	(2,816)	(56)	466	364	10	(2,073)	(36)
Expenses	(899)	(2)	(5,181)	(11)	3,760	51	(766)	(3,086)	(3)
Income (loss) before income tax	8,877	24	1,943	34	138	(40)	69	11,027	26
Net income (loss) for the year	354	1	(3)		218	70	69	638	2
Net income (loss) attributable to equity holders of PLDT	538	2	(4)		263	113	69	866	2

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(1) 2006 has been restated to reflect the change in revenue recognition for installation charges.

Wireless

Revenues and Other Income

Our wireless business segment offers cellular services as well as wireless broadband, satellite, VSAT and other services.

The following table summarizes our service and non-service revenues and other income from our wireless business for the years ended December 31, 2007 and 2006 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2007	**%**	**2006**	**%**	**Amount**	**%**
(in millions)						
Wireless services:						
Service Revenues						
Cellular	Php82,334	92	Php75,605	93	Php6,729	9
Wireless broadband, satellite, VSAT and others	4,163	5	2,778	3	1,385	50
	86,497	97	78,383	96	8,114	10
Non-service Revenues						
Sale of cellular handsets and SIM-packs	2,054	2	2,457	3	(403)	(16)
Other Income	973	1	706	1	267	38
Total Wireless Revenues and Other Income	Php89,524	100	Php81,546	100	Php7,978	10

Service Revenues

Our wireless service revenues increased by Php8,114 million, or 10%, to Php86,497 million in 2007 as compared with Php78,383 million in 2006, mainly as a result of the growth in the cellular and wireless broadband subscriber base, an increase in inbound international traffic and inbound roaming revenues, partially offset by an increase in interconnection costs and the unfavorable effect of the appreciation of the Philippine peso on dollar-linked revenues. As a percentage of our total wireless revenues and other income, service revenues contributed 97% in 2007 as compared to 96% in 2006.

Cellular Service

Our cellular service revenues consist of revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers and retailers; monthly service fees from postpaid subscribers, including (1) toll charges for national and international long distance calls; (2) charges for calls and text messages in excess of allocated free local calls and text messages, respectively; and

(3) charges for value-added services, net of related content provider costs; revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses, fees from reciprocal traffic from international correspondents, and revenues from inbound international roaming services; and other charges, including those for reconnection and migration.

Our cellular service revenues in 2007 amounted to Php82,334 million, an increase of Php6,729 million, or 9%, from Php75,605 million in the same period in 2006. Cellular service revenues accounted for 95% of our wireless service revenues in 2007 as compared to 96% in 2006.

Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold, addict mobile,* and *Smart Infinity. Smart Buddy* is a prepaid service while *Smart Gold, Smart Infinity* and *addict mobile* are postpaid services, which are all provided through Smart's digital network. Piltel markets its cellular prepaid service under the brand name *Talk N Text* which is provided through Smart s network.

Since 2006, Smart and Piltel have focused on segmenting the market by offering sector-specific, value-driven packages for its prepaid subscribers. These include new varieties of our top-up service which provide a fixed number of messages with prescribed validity periods and call packages which allow a fixed number of calls of preset duration. Starting out as purely on-net packages, Smart s and Piltel s top-up services now offer text message bundles available to all networks. Smart also continues to offer *Smart 258*, a registration-based service which offers unlimited on-network text messaging in various load denominations with designated expiration periods.

Smart likewise has in place various promotions to stimulate international usage. These include international budget text packages, with a limited duration and a varying number of allowable messages, which allow subscribers to send international text to pre-registered recipients of the subscriber s choice, on supported overseas carriers.

Smart also has a roster of 3G services which it commercially launched in May 2006. These services include video calling, video streaming, high-speed internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

The following table summarizes key measures of our cellular business as at and for the years ended December 31, 2007 and 2006:

	Years Ended December 31,		
			Increase
	2007	**2006**	**Amount%**
(in millions)			

Cellular service revenues	Php82,334	Php75,605	Php6,729	9
By service type	*80,197*	*73,893*	*6,304*	*9*
Prepaid	74,284	68,846	5,438	8
Postpaid	5,913	5,047	866	17
By component	*80,197*	*73,893*	*6,304*	*9*
Voice	36,105	35,221	884	3
Data	44,092	38,672	5,420	14
Others(1)	*2,137*	*1,712*	*425*	*25*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart s public calling offices and a small number of leased line contracts, revenues from Wolfpac and other Smart subsidiaries and revenue share in PLDT s WeRoam and PLDT Landline Plus services.

	December 31,			
			Increase	
	2007	**2006**	**Amount**	**%**
Cellular subscriber base	30,041,030	24,175,384	5,865,646	24
Prepaid	29,699,150	23,856,821	5,842,329	24
Smart	*19,997,324*	*16,882,442*	*3,114,882*	*18*
Piltel	*9,701,826*	*6,974,379*	*2,727,447*	*39*
Postpaid	341,880	318,563	23,317	7

	Years Ended December 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
Systemwide traffic volumes (in millions)				
Calls (in minutes)	6,355	5,667	688	12
Domestic outbound	3,799	3,437	362	11
International	2,556	2,230	326	15
Inbound	*2,355*	*2,065*	*290*	*14*
Outbound	*201*	*165*	*36*	*22*
SMS count	214,919	238,362	(23,443)	(10)
Text messages	212,974	235,957	(22,983)	(10)
Standard	*25,289*	*32,065*	*(6,776)*	*(21)*
Bucket-Priced	*187,420*	*203,669*	*(16,249)*	*(8)*
International	*265*	*223*	*42*	*19*
Value-Added Services	1,903	2,370	(467)	(20)
Financial Services	42	35	7	20

Revenues attributable to our cellular prepaid service amounted to Php74,284 million in 2007, an 8% increase over the Php68,846 million earned in 2006. Prepaid service revenues in 2007 and 2006 accounted for 93% of voice and data revenues. Revenues attributable to Smart s postpaid service amounted to Php5,913 million in 2007, a 17% increase over the Php5,047 million earned in 2006, and accounted for 7% of voice and data revenues in 2007 and 2006.

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased by Php884 million, or 3%, to Php36,105 million in 2007 from Php35,221 million in 2006 primarily due to an increase in domestic voice, international long distance and voice roaming revenues, and domestic and international inbound revenues partially offset by the unfavorable effect of a higher level of peso appreciation in 2007. The increase in domestic and international outbound and inbound revenues may be attributed to increased traffic mainly on account of subscriber growth. Cellular voice services accounted for 44% of cellular service revenues in 2007 as compared to 47% in 2006.

Air time rates for postpaid subscribers vary depending on the type of postpaid plan selected by subscribers.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php5,420 million, or 14%, to Php44,092 million in 2007 from Php38,672 million in 2006. Cellular data services accounted for 54% of cellular service revenues in 2007 as compared to 51% in 2006.

The following table shows the breakdown of our cellular data revenues for the years ended December 31, 2007 and 2006:

	Years Ended December 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
(in millions)				
Text messaging				
Domestic	Php39,430	Php32,763	Php6,667	20
Standard	*19,289*	*21,709*	*(2,420)*	*(11)*
Bucket-Priced	*20,141*	*11,054*	*9,087*	*82*

International	1,835	1,886	(51)	(3)
	41,265	34,649	6,616	19
Value-added services				
Standard(1)	1,802	2,809	(1,007)	(36)
Rich Media(2)	352	287	65	23
Pasa Load	594	854	(260)	(30)
	2,748	3,950	(1,202)	(30)
Financial services				
Smart Money	75	68	7	10
Mobile Banking	4	5	(1)	(20)
	79	73	6	8
Total	Php44,092	Php38,672	Php5,420	14

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(1) Includes standard services such as info-on-demand, ringtone and logo downloads, etc.

(2) Includes Multimedia Messaging System, Wireless Application Protocol, General Packet Radio Service, or GPRS, etc.

Text messaging-related services contributed revenues of Php41,265 million in 2007, an increase of Php6,616 million, or 19%, compared to Php34,649 million in 2006, and accounted for 94% and 90 % of the total cellular data revenues in 2007 and 2006, respectively. The increase in revenues from text messaging-related services resulted mainly from Smart s various bucket-priced text promotional offerings which more than offset the decline in our standard texting services. Text messaging revenues from the various bucket plans totaled Php20,141 million in 2007, an increase of Php9,087 million, or 82%, compared to Php11,054 million in 2006. On the other hand, standard text messaging revenues declined by Php2,420 million, or 11%, to Php19,289 million in 2007 compared to Php 21,709 million in 2006.

Standard text messages totaled 25,289 million in 2007, a decrease of 6,776 million, or 21%, from 32,065 million in 2006 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in 2007 totaled 187,420 million, a decrease of 16,249 million, or 8%, as compared to 203,669 million in 2006 mainly on account of the introduction in late 2006 of low-denomination text packages with a fixed number of SMS including off-network messages. While these promotional text offerings resulted in reduced traffic for *Smart 258 Unlimited Text* service, the yield per SMS improved significantly resulting in increased text revenues.

Value-added services, which contributed revenues of Php2,748 million in 2007, decreased by Php1,202 million, or 30%, from Php3,950 million in 2006 primarily due to lower usage of standard services and *Pasa Load* owing to the introduction of low-denomination top-ups, partially offset by higher usage of rich media services in 2007 as compared to 2006.

Subscriber Base, ARPU and Churn Rates

In 2007, Smart and Piltel cellular subscribers totaled 30,041,030, an increase of 5,865,646, or 24%, over their combined cellular subscriber base of 24,175,384 in 2006. Prepaid subscribers accounted for 99% of our total subscriber base in 2007 and 2006. Our cellular prepaid subscriber base grew by 24% to 29,699,150 in 2007 from 23,856,821 in 2006, while our postpaid subscriber base increased by 7% to 341,880 in 2007 from 318,563 in 2006. Prepaid and postpaid subscribers reflected net subscriber activations of 5,842,329 and 23,317, respectively, in 2007.

Our net subscriber activations for the years ended December 31, 2007 and 2006 were as follows:

	Years Ended December 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
Prepaid	5,842,329	3,728,278	2,114,051	57
Smart	3,114,882	1,738,324	1,376,558	79
Piltel	2,727,447	1,989,954	737,493	37
Postpaid	23,317	38,485	(15,168)	(39)
Total	5,865,646	3,766,763	2,098,883	56

The following table summarizes our cellular ARPUs for the years ended December 31, 2007 and 2006:

	Years Ended December 31,							
	Gross		**Increase (Decrease)**		**Net**		**Increase (Decrease)**	
	2007	**2006**	**Amount**	**%**	**2007**	**2006**	**Amount**	**%**
Prepaid								
Smart	Php312	Php339	(Php27)	(8)	Php254	Php289	(Php35)	(12)
Piltel	221	226	(5)	(2)	184	194	(10)	(5)
Prepaid Blended	285	308	(23)	(7)	233	263	(30)	(11)
Postpaid Smart	2,091	1,904	187	10	1,485	1,407	78	6
Prepaid and Postpaid Blended	307	330	(23)	(7)	248	278	(30)	(11)

ARPU is computed for each month by dividing the revenues for the relevant services for the month by the average of the number of subscribers at the beginning and at the end of the month. Gross monthly ARPU is computed by dividing the revenues for the relevant services, gross of discounts and allocated content-provider costs, including interconnection income but excluding inbound roaming revenues, by the average number of subscribers. Net monthly

ARPU, on the other hand, is calculated based on revenues net of discounts and allocated content-provider costs and interconnection income net of interconnection expense. ARPU for any period of more than one month is calculated as the simple average of the monthly ARPUs in that period.

Prepaid service revenues consist mainly of charges for subscribers actual usage of their loads. Prepaid blended ARPU in 2007 was Php285, a decrease of 7%, compared to Php308 in 2006. The average outbound domestic and international voice as well as the average value-added services and inbound revenue per subscriber declined in 2007 compared to 2006, but were partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, prepaid blended ARPU in 2007 was Php233, a decrease of 11%, compared to Php263 in 2006.

Monthly ARPU for Smart s postpaid services is calculated in a manner similar to that of prepaid service, except that the revenues consist mainly of monthly service fees and charges on usage in excess of the monthly service fees.

Gross monthly ARPU for postpaid subscribers increased by 10% to Php2,091 while net monthly ARPU increased by 6% to Php1,485 in 2007 as compared to Php1,904 and Php1,407 in 2006, respectively. Prepaid and postpaid monthly gross blended ARPU was Php307 in 2007, a decrease of 7%, compared to Php330 in 2006. Monthly net blended ARPU decreased by 11% to Php248 in 2007 as compared to Php278 in 2006.

Our quarterly prepaid and postpaid ARPUs for the years ended December 31, 2007 and 2006 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2007						
First Quarter	Php323	Php267	Php228	Php187	Php2,045	Php1,483
Second Quarter	324	265	233	198	2,141	1,526
Third Quarter	293	239	206	173	2,073	1,464
Fourth Quarter	307	244	216	177	2,105	1,467
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425

Churn, or the rate at which existing subscribers have their service cancelled in a given period, is computed based on total disconnections in the period, net of reconnections in the case of postpaid subscribers, divided by the average of the number of subscribers at the beginning and at the end of a month, all divided by the number of months in the same period.

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber s handset, which contains pre-stored air time. The pre-stored air time, which is equivalent to Php1 plus 50 free SMS for *Smart Buddy* and 25 free SMS for *Talk N Text*, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid call and text cards; by purchasing additional air time over the air via *Smart Load, All Text* or *Smart Connect*; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month.

For Smart prepaid, the average monthly churn rate for 2007 and 2006 were 3.5% and 3.1%, respectively, while the average monthly churn rate for *Talk N Text* subscribers in 2007 and 2006 were 3.5% and 3.3%, respectively.

The average monthly churn rate for Smart's postpaid subscribers for 2007 was 1.3% compared to 1.2% in 2006. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist of wireless broadband service revenues for SBI, rentals received for the lease of Mabuhay Satellite s transponders and Telesat s VSAT facilities to other companies, charges for ACeS Philippines satellite information and messaging services and service revenues generated from PLDT Global s subsidiaries. Gross revenues from these services for 2007 amounted to Php4,163 million, an increase of Php1,385 million, or 50%, from Php2,778 million in 2006 principally due to the growth in our wireless broadband business partially offset by lower satellite transponder rental revenues owing to lower rental charges and number of transponders being leased out and higher level of the peso appreciation in 2007.

SBI offers a number of wireless broadband services and had 301,738 subscribers in 2007 as compared to 121,867 in 2006. *Smart Bro*, the fixed wireless broadband service of Smart linked to Smart s wireless broadband-enabled base stations, allows people to connect to the internet using an outdoor aerial antenna installed in a subscriber s home. Wireless broadband revenues contributed Php2,390 million in 2007, increasing by Php1,567 million, or 190%, from Php823 million in 2006.

On November 22, 2007, we introduced *Smart Bro Plug-It* which offers instant internet access, through the use of a wireless modem, in places where there is Smart network coverage. Subscribers to this plan will just have to plug the data modem to be able to access the internet with speeds ranging from 384 to 512 kbps. The monthly service fee of Php799 includes 40 hours per month of free internet usage. A one-time charge for the modem costs Php1,200.

We also offer *PLDT WeRoam*, a wireless broadband service, running on the PLDT Group s nationwide wireless network (using GPRS, EDGE and WiFi technologies). Principally targeted at the corporate market, this service had 13,066 subscribers in 2007 compared to 9,623 subscribers in 2006 and contributed Php142 million to our data revenues, increasing by Php66 million, or 87%, from Php76 million in 2006.

Non-service Revenues

Our wireless non-service revenues consist of proceeds from sales of cellular handsets and cellular SIM-packs.

Our wireless non-service revenues decreased by Php403 million, or 16%, to Php2,054 million in 2007 as compared to Php2,457 million in 2006 primarily due to a lower volume of postpaid and prepaid handsets sold and a lower average revenue per cellular handset and cellular SIM-pack, partly offset by a higher volume of cellular SIM-packs sold in 2007.

Other Income

All other income/gains such as rental income, gain on disposal of property which do not fall under service and non-service revenues, are included under this classification. Our wireless business segment generated other income of Php973 million in 2007, an increase of Php267 million, or 38%, as compared to Php706 million in 2006.

Expenses

Expenses associated with our wireless business in 2007 amounted to Php43,793 million, a decrease of Php899 million, or 2%, from Php44,692 million in 2006. A significant portion of this decrease was attributable to net financing gains, lower asset impairment expense and cost of sales, partially offset by higher depreciation and amortization, professional and other contracted services, rent, and selling and promotion expenses. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 49% and 55% in 2007 and 2006, respectively.

Cellular business expenses accounted for 91% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 9% of our wireless business expenses in 2007 and 2006.

The following table summarizes the breakdown of our total wireless-related expenses for the years ended December 31, 2007 and 2006 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
	2007	**%**	**2006**	**%**	**Amount**	**%**
(in millions)						
Wireless services:						
Depreciation and amortization	Php12,202	28	Php10,752	24	Php1,450	13
Rent	8,751	20	7,887	18	864	11
Compensation and employee benefits(1)	4,608	11	5,041	11	(433)	(9)
Cost of sales	4,445	10	4,887	11	(442)	(9)
Selling and promotions	3,804	9	3,013	7	791	26
Repairs and maintenance	3,634	8	3,646	8	(12)	
Professional and other contracted services	3,238	7	1,831	4	1,407	77
Taxes and licenses	1,348	3	1,018	2	330	32
Communication, training and travel	1,083	3	891	2	192	22
Insurance and security services	783	2	797	2	(14)	(2)
Provisions	563	1	829	2	(266)	(32)
Amortization of intangible assets	158		312	1	(154)	(49)
Asset impairment			1,391	3	(1,391)	(100)
Financing costs (gains)	(1,814)	(4)	1,700	4	(3,514)	(207)
Other expenses	990	2	697	1	293	42
Total	Php43,793	100	Php44,692	100	(Php899)	(2)

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(1) Includes salaries and benefits, incentive plan, pension and manpower rightsizing program, or MRP, costs.

Depreciation and amortization charges increased by Php1,450 million, or 13%, to Php12,202 million in 2007 principally due to an increase in our depreciable asset base mainly transmission facilities, 2G, 3G and broadband networks, and broadband customer-deployed equipment.

Rent expenses increased by Php864 million, or 11%, to Php8,751 million on account of an increase in domestic fiber optic network, or DFON, facilities and transmission circuits leased by Smart from PLDT, as well as higher site rental expenses. In 2007, we had 5,001 GSM cell sites and 7,825 base stations, compared with 4,377 GSM cell sites and 6,099 base stations in 2006.

Compensation and employee benefits expenses decreased by Php433 million, or 9%, to Php4,608 million primarily due to lower accrued long-term incentive plan, or LTIP, partly offset by higher accrued bonuses and employees basic pay increase of Smart. Smart and subsidiaries employee headcount increased by 57 to 5,363 in 2007 as compared to 5,306 in 2006. For further discussion on our LTIP, please see *Note 23 Employee Benefits* to the accompanying unaudited consolidated financial statements.

Cost of sales decreased by Php442 million, or 9%, to Php4,445 million due to lower average cost of cellular handsets and cellular SIM-packs.

Selling and promotion expenses increased by Php791 million, or 26%, to Php3,804 million due to higher advertising, merchandising and commission expenses, partly offset by a decrease in printing cost of prepaid cards with the prevalence of e-loading.

Repairs and maintenance expenses decreased by Php12 million to Php3,634 million mainly due to lower repairs and maintenance costs for network facilities and a decrease in fuel costs for power generation, partly offset by an increase in IT software and hardware repairs and maintenance costs, as well as higher electricity cost for cell sites.

Professional and other contracted services increased by Php1,407 million, or 77%, to Php3,238 million primarily due to higher expenses for consultancy, contracted and technical services, market research and advisory fees. We changed the estimated useful life of a prepaid management fee to effectively end in 2007. Please see *Note 22 Related Party Transactions* to the accompanying unaudited consolidated financial statements for further discussion.

Taxes and licenses increased by Php330 million, or 32%, to Php1,348 million primarily due to higher non-creditable input tax and the Philippine National Telecommunications Commission, or NTC, licenses and fees, partly offset by lower business-related taxes and licenses.

Communication, training and travel expenses increased by Php192 million, or 22%, to Php1,083 million mainly due to higher mailing and courier charges, travel and training expenses.

Insurance and security services decreased by Php14 million, or 2%, to Php783 million primarily due to the decrease in site security expenses and lower charges on insurance contracts.

Provisions decreased by Php266 million, or 32%, to Php563 million primarily due to a lower provision for subscriber accounts receivable, partially offset by a higher level of write-down to net realizable values of slow-moving broadband-related customer equipment.

Amortization of intangible assets decreased by Php154 million, or 49%, to Php158 million mainly due to intangible assets relating to technology application and customer list arising from the acquisition of Wolfpac and SBI which were fully amortized by November 2006 and August 2007, respectively.

Asset impairment decreased by Php1,391 million due to Mabuhay Satellite s asset impairment charge recognized in 2006 as a result of the reduction in value of Agila II satellite given the difficulty in generating cash flows with the satellite nearing its end-of-life and other events affecting its business. No impairment was recognized in 2007 under our wireless business segment.

We recognized a net financing gain of Php1,814 million in 2007 as compared to a net financing cost of Php1,700 million in 2006 on account of lower accretion on financial liabilities due to the settlement of Piltel s debt in 2006 and higher gain on foreign exchange revaluation due to the higher level of appreciation of the Philippine peso to the U.S. dollar in 2007 as compared to 2006, partly offset by lower interest income and capitalized interest. The breakdown of our financing costs (gains) for our wireless business for the years ended December 31, 2007 and 2006 is as follows:

	Years Ended December 31,			
			Change	
	2007	**2006**	**Amount**	**%**
(in millions)				
Interest on loans and related items	Php1,581	Php1,634	(Php53)	(3)
Accretion on financial liabilities net	877	3,105	(2,228)	(72)
Financing charges	12	37	(25)	(68)
Dividends on preferred stock subject to mandatory redemption	17	130	(113)	(87)
Capitalized interest	(188)	(248)	60	(24)
Gain on derivative transactions net	(278)	(39)	(239)	613
Interest income	(1,186)	(1,197)	11	(1)
Foreign exchange gains net	(2,649)	(1,722)	(927)	54
	(Php1,814)	Php1,700	(Php3,514)	(207)

Other expenses increased by Php293 million, or 42%, to Php990 million primarily due to higher various business and operational-related expenses.

Provision for Income Tax

Provision for income tax increased by Php8,523 million, or 132%, to Php15,001 million in 2007 from Php6,478 million in 2006. In 2007, the effective tax rate for our wireless business was 33% as compared to 18% in 2006 mainly due to the recognition of deferred tax assets of Piltel in 2006 complemented by higher taxable income in 2007.

Net Income

Our wireless business segment recorded a net income of Php30,730 million in 2007, an increase of Php354 million, or 1%, over Php30,376 million registered in 2006 on account of higher cellular revenues complemented by lower expenses, partially offset by higher provision for income tax.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in 2007 totaled Php51,022 million, a decrease of Php3,238 million, or 6%, from Php54,260 million in 2006.

The following table summarizes revenues from our fixed line business for the years ended December 31, 2007 and 2006 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2007	**%**	**2006**(1)	**%**	**Amount**	**%**
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php16,205	32	Php16,964	32	(Php759)	(4)
International long distance	8,674	17	9,933	18	(1,259)	(13)
National long distance	6,338	12	6,921	13	(583)	(8)
Data and other network	15,921	31	13,725	25	2,196	16

Miscellaneous	1,413	3	1,632	3	(219)	(13)
	48,551	95	49,175	91	(624)	(1)
Non-Service Revenues	281	1	79		202	256
Other Income	2,190	4	5,006	9	(2,816)	(56)
Total Fixed Line Revenues and Other Income	Php51,022	100	Php54,260	100	(Php3,238)	(6)

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(1) 2006 has been restated to reflect the change in revenue recognition for installation charges.

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of flat monthly fees for our postpaid and fixed charges for our bundled voice and data services; installation charges and other one-time fees associated with the establishment of customer service; revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards; and charges for special features, including bundled value-added services such as call waiting, call forwarding, multi-party conference calling, speed calling and caller ID.

The following table summarizes key measures of our local exchange service business as at and for the years ended December 31, 2007 and 2006:

	Years Ended December 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
Total local exchange service revenues (1) (in millions)	Php16,205	Php16,964	(Php759)	(4)
Number of fixed line subscribers	1,724,702	1,776,647	(51,945)	(3)
Postpaid	1,479,647	1,450,331	29,316	2
Prepaid	245,055	326,316	(81,261)	(25)
Number of fixed line employees	8,080	8,711	(631)	(7)
Number of fixed line subscribers per employee	213	204	9	4

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(1) 2006 has been restated to reflect the change in revenue recognition for installation charges.

Revenues from our local exchange service decreased by Php759 million, or 4%, to Php16,205 million in 2007 from Php16,964 million in 2006. The decrease was primarily due to the appreciation of the peso which required us to make downward adjustments in our monthly local service rates and the decrease in prepaid subscribers, partially offset by the increase in postpaid billed lines. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 33% in 2007 as compared to 34% in 2006.

Initially intended as an affordable alternative telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of our overall churn and credit risk exposure management strategy. PLDT has consolidated its prepaid fixed line service into one *Telepwede*, which is funded by e-loads (available at Smart or PLDT e-load retailers). *Telepwede* subscribers are charged Php115 to receive incoming calls and can reload for as low as Php30 to make outgoing calls. Local call rates are made more affordable at Php2 per call, unlimited.

In March 2007, PLDT launched the PLDT Landline Plus, a postpaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. The monthly service fee is at Php600 with 600 local minutes free and Php1,000 with 1,000 local minutes free for residential and business subscribers, respectively. As at December 31, 2007, there were a total of 33,369 PLDT Landline Plus subscribers.

Pursuant to a currency exchange rate adjustment, or CERA, mechanism authorized by the NTC, we adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In 2007, we implemented five downward adjustments and one upward adjustment in our monthly local service rates, while there were eight downward adjustments and three upward adjustments in 2006. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in 2007 was Php48.67 to US$1.00, compared to an average of Php51.53 to US$1.00 in 2006. This change in the average peso-to-dollar rate translated to a peso appreciation of 6%, which resulted in a net decrease of approximately 5% in our average monthly local service rates in 2007. In its letter dated July 16, 2007, the NTC has approved our request to use annual average exchange rates as our basis in CERA computation instead of the currently used monthly averages.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service; access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

The following table shows information about our international fixed line long distance business for the years ended December 31, 2007 and 2006:

	Years Ended December 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
Total international long distance service revenues (in millions)	Php8,674	Php9,933	(Php1,259)	(13)
Inbound	7,127	8,378	(1,251)	(15)
Outbound	1,547	1,555	(8)	(1)
International call volumes (in million minutes, except call ratio)	2,280	2,177	103	5
Inbound	2,007	1,984	23	1
Outbound	273	193	80	41
Inbound-outbound call ratio	7.3:1	10.3:1		

Our total international long distance service revenues decreased by Php1,259 million, or 13%, to Php8,674 million in 2007 from Php9,933 million in 2006 primarily due to the peso appreciation and a decrease in average termination rates for inbound calls partially mitigated by an increase in call volumes. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 18% in 2007 from 20% in 2006.

Our revenues from inbound international long distance service decreased by Php1,251 million, or 15%, to Php7,127 million owing to the appreciation of the Philippine peso to the U.S. dollar coupled with a decrease in average rate per minute due to the change in call mix with more traffic terminating to cellular operators where the net revenue retained by us is lower. These decreasing effects were partially offset by a slight increase in inbound traffic volume by 23 million minutes to 2,007 million minutes in 2007. The appreciation of the Philippine peso to the U.S. dollar with average exchange rates of Php45.900 in 2007 and Php51.165 in 2006 contributed to the decrease in our inbound international long distance revenues in peso terms, since settlement charges for inbound calls are billed in U.S. dollars or in special drawing rights, an established method of settlement among international telecommunications carriers using values based on a basket of foreign currencies that are translated into pesos at the time of billing.

Our revenues from outbound international long distance service decreased by Php8 million, or 1%, to Php1,547 million in 2007 primarily due to a decline in average revenue per minute as a result of a lower average collection rate with the introduction of low-rate services such as *PLDT ID-DSL* and *Budget Card*, and the higher level of peso appreciation in 2007, which more than offset the increase in outbound international call volumes in 2006.

National Long Distance Service

Our national long distance service revenues consist of per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier; access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2007 and 2006:

	Years Ended December 31,			
			Decrease	
	2007	**2006**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php6,338	Php6,921	(Php583)	(8)
National long distance call volumes (in million minutes)	2,183	2,251	(68)	(3)

Our national long distance service revenues decreased by Php583 million, or 8%, to Php6,338 million in 2007 from Php6,921 million in 2006 primarily due to a decrease in call volumes coupled with a lower average revenue per minute in 2007 in relation to our various bundled promotions. The percentage contribution of national long distance revenues to our fixed line service revenues accounted for 13% in 2007 and 14% in 2006.

Data and Other Network Services

Our data and other network service revenues include charges for leased lines, IP-based, packet-based and switched-based services. These services are used for domestic and international communications such as private networking, broadband and narrowband internet-based data communications, and packet-based communication.

The following table shows information about our data and other network service revenues for the years ended December 31, 2007 and 2006:

Years Ended December 31,

	2007	2006	Increase (Decrease) Amount	%
Data and other network service revenues (in millions)	Php15,921	Php13,725	Php2,196	16
Number of DSL broadband subscribers	264,291	133,159	131,132	98
Number of *PLDT Vibe* narrowband subscribers	230,995	297,250	(66,255)	(22)

In 2007, our data and other network services posted revenues of Php15,921 million, an increase of Php2,196 million, or 16%, from Php13,725 million in 2006 primarily due to increases in leased lines, IP-based and packet-based data services, particularly Diginet and DFON rental, and *PLDT DSL* mitigated by lower *PLDT Vibe* services. The percentage contribution of this service segment to our fixed line service revenues increased to 33% in 2007 from 28% in 2006.

IP-based products include *PLDT DSL* (*myDSL* and *BizDSL*), *PLDT Vibe* and I-Gate. *PLDT DSL* broadband internet service is targeted for heavy individual internet users as well as for small and medium enterprises, while *PLDT Vibe,* PLDT s dial-up/narrowband internet service, is targeted for light to medium residential or individual internet users. I-Gate, our dedicated leased line internet access service, on the other hand, is targeted at enterprises and value-added service providers.

DSL contributed revenues of Php3,880 million in 2007, an increase of Php748 million, or 24%, from Php3,132 million in 2006 primarily due to an increase in the number of subscribers. *DSL* reached 264,291 subscribers in 2007 compared with 133,159 subscribers in 2006. *DSL* offers a number of packages with maximum speeds ranging from 88 kbps to 3 Mbps depending on the plan.

PLDT Vibe revenues decreased by Php128 million, or 33%, to Php259 million in 2007 from Php387 million in 2006 primarily due to lower number of plan subscribers as well as the declining usage of Vibe prepaid. *PLDT Vibe* subscribers decreased to 230,995 in 2007 from 297,250 in 2006. The declining number of Vibe plans and regular monthly users for Vibe prepaid may be attributed to the migration from Vibe dial-up to *DSL* which is now priced more competitively.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT s traditional international and domestic data offerings Fibernet, Arcstar, other Global Service Providers such as BT-infonet, Orange Business and Verizon; ISDN has also taken up much subscription from corporate customers, especially the Primary Rate Interface type, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others continue to provide us with a stable revenue source.

On October 17, 2007, PLDT teamed up with Intel and IBM to offer the Simplified Networks on Auto Pilot, or SNAP, a turn-key and cost-effective IT networking solution that can help companies increase their profitability and competitiveness. For a flat monthly fee arrangement, SNAP handles a company s IT requirements which includes the latest desktops and laptops, server solutions, technical support and broadband connectivity.

Diginet, our domestic private leased line service, has been providing Smart s increasing fiber optic and leased line data requirements. Diginet revenues increased by Php478 million, or 7%, to Php7,291 million in 2007 as compared to Php6,813 million in 2006 mainly due to Smart s DFON rental of Php5,565 million and Php4,940 million in 2007 and 2006, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities management and rental fees. In 2007, these revenues decreased by Php219 million, or 13%, to Php1,413 million from Php1,632 million in 2006 mainly due to a decline in facilities management fees and rental income owing to lower co-location charges. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% in 2007 and 2006.

Non-service Revenues

Non-service revenues increased by Php202 million, or 256%, to Php281 million in 2007 from Php79 million in 2006 primarily due to higher computer sales in relation to our DSL promotion.

Other Income

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues, are included under this classification. In 2007, our fixed line business segment registered a decrease in other income of Php2,816 million, or 56%, to Php2,190 million from Php5,006 million in 2006 largely due to the net reversal of a provision for onerous contract amounting to Php3,529 million related to the change in the Air Time Purchase Agreement with ACeS International Limited, or AIL in 2006 (please see *Note 25 Provisions and Contingencies* to the accompanying unaudited consolidated financial statements for further discussion).

Expenses

Expenses related to our fixed line business totaled Php43,354 million in 2007, a decrease of Php5,181 million, or 11%, as compared to Php48,535 million in 2006. The decrease was primarily due to lower depreciation and amortization, financing costs and selling and promotion expenses, partially offset by higher professional and other contracted services, provisions, rent, repairs and maintenance and taxes and licenses.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2007 and 2006 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
	2007	%	2006	%	Amount	%
(in millions)						
Fixed line services:						
Depreciation and amortization	Php15,477	36	Php20,406	42	(Php4,929)	(24)
Compensation and employee benefits(1)	10,411	24	10,298	21	113	1
Financing costs	5,426	12	7,271	15	(1,845)	(25)
Repairs and maintenance	3,772	9	3,553	7	219	6
Rent	1,799	4	1,579	3	220	14
Professional and other contracted services	1,727	4	1,082	2	645	60
Selling and promotions	1,707	4	1,736	4	(29)	(2)
Taxes and licenses	877	2	659	2	218	33
Provisions	709	2	92		617	671
Communication, training and travel	466	1	507	1	(41)	(8)
Insurance and security services	439	1	498	1	(59)	(12)
Cost of sales	145		159		(14)	(9)
Other expenses	399	1	695	2	(296)	(43)
Total	Php43,354	100	Php48,535	100	(Php5,181)	(11)

(1) Includes salaries and employee benefits, incentive plan, pension and MRP costs.

Depreciation and amortization charges decreased by Php4,929 million, or 24%, to Php15,477 million due to higher additional depreciation charges recognized by PLDT in 2006 on certain properties and equipment affected by our NGN roll-out. In 2007, we recognized additional depreciation of Php734 million relating to Piltel s equipment that were also affected by our continuing network upgrade and expansion.

Compensation and employee benefits expenses increased by Php113 million, or 1%, to Php10,411 million primarily due to an increase in pension benefits and MRP costs, and the effect of collective bargaining agreement-related increases in salaries and employee benefits, partially offset by the lower costs of LTIP. Over the past years, PLDT has been implementing its MRP in line with the challenges being faced by the fixed line business as significant changes in technology, increasing competition and shifting market preferences to cellular use have reshaped the future of our fixed line business. Total MRP cost for the years ended December 31, 2007 and 2006 amounted to Php564 million and Php414 million, respectively. For further discussion on our LTIP, please see *Note 23 Employee Benefits* to the accompanying unaudited consolidated financial statements.

Financing costs decreased by Php1,845 million, or 25%, to Php5,426 million largely due to lower interest on loans and related items and lower hedge costs. These were partially offset by higher financing charges in relation to costs incurred in the consent solicitation of notes and lower interest income. The breakdown of financing costs for our fixed line business for the years ended December 31, 2007 and 2006 is as follows:

	Years Ended December 31,			
			Change	
	2007	**2006**	**Amount**	**%**
(in millions)				
Interest on loans and related items	Php4,642	Php6,254	(Php1,612)	(26)
Hedge costs	1,125	1,446	(321)	(22)
Loss on derivative transactions	405	447	(42)	(9)
Accretion on financial liabilities net	185	206	(21)	(10)
Financing charges	184	14	170	1,214
Interest income	(296)	(441)	145	(33)
Capitalized interest	(354)	(301)	(53)	18
Foreign exchange gains net	(465)	(354)	(111)	31
	Php5,426	Php7,271	(Php1,845)	(25)

Repairs and maintenance expenses increased by Php219 million, or 6%, to Php3,772 million primarily due to higher maintenance costs of central office/telecoms equipment and domestic cable and wire facilities as more operating and maintenance-related restorations were incurred in 2007 as compared to 2006.

Rent expenses increased by Php220 million, or 14%, to Php1,799 million due to the settlement of pole rental charges with Visayan Electric Company, Inc. and increase in international leased circuit charges, partially offset by the decrease in transponder lease.

Professional and other contracted services increased by Php645 million, or 60%, to Php1,727 million primarily due to PLDT s higher consultancy service fees coupled with higher contracted fees for technical and advisory services.

Selling and promotion expenses decreased by Php29 million, or 2%, to Php1,707 million primarily as a result of a collective effort in efficient media spending in relation to various products and services, partially offset by higher public relations expense.

Taxes and licenses increased by Php218 million, or 33%, to Php877 million mainly on account of higher business-related taxes.

Provisions increased by Php617 million, or 671%, to Php709 million primarily due to higher provision for assessments in 2007. Please see *Note 25 Provisions and Contingencies* to the accompanying unaudited consolidated financial statements for further details.

Communication, training and travel expenses decreased by Php41 million, or 8%, to Php466 million due to the decrease in mailing, courier and delivery charges, and net decrease in foreign and local travel, and training expenses.

Insurance and security services decreased by Php59 million, or 12%, to Php439 million primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance.

Cost of sales decreased by Php14 million, or 9%, to Php145 million due to lower computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Other expenses decreased by Php296 million, or 43%, to Php399 million due to lower various business and operational-related expenses.

Provision for Income Tax

Provision for income tax amounted to Php2,395 million in 2007 as compared to Php449 million in 2006 primarily due to higher taxable income as a result of lower accelerated depreciation recognized in 2007.

Net Income

In 2007, our fixed line business segment contributed a net income of Php5,273 million, a decrease of Php3 million as compared to Php5,276 million in 2006 mainly as a result of a 6% decline in our service revenues and other income augmented by higher provision for income tax, partially offset by an 11% decrease in fixed line-related expenses, particularly depreciation and amortization.

Information and Communications Technology

Revenues and Other Income

Our ICT business provides knowledge processing solutions, customer interaction services, internet and online gaming, data center and other services.

In 2007, our ICT business generated revenues of Php10,916 million, an increase of Php3,898 million, or 56%, from Php7,018 million in 2006. This increase was largely due to the full consolidation of the SPi Group in 2007 and the continued increase of our customer interaction service revenues.

The following table summarizes revenues from our ICT business for the years ended December 31, 2007 and 2006 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2007	**%**	**2006**	**%**	**Amount**	**%**
(in millions)						
Service Revenues						
Knowledge processing solutions	Php5,261	48	Php2,374	34	Php2,887	122
Customer interaction services	3,262	30	2,624	37	638	24
Internet and online gaming	937	9	796	11	141	18
*Vitro*ä data center	595	6	543	8	52	10
	10,055	92	6,337	90	3,718	59
Non-service Revenues						
Point Product Sales	267	3	553	8	(286)	(52)
Other Income	594	5	128	2	466	364
Total ICT Revenues and Other Income	Php10,916	100	Php7,018	100	Php3,898	56

Service Revenues

Service revenues generated by our ICT segment amounted to Php10,055 million in 2007, an increase of Php3,718 million, or 59%, as compared to Php6,337 million in 2006 primarily as a result of the consolidation of the SPi Group and Level Up! and the continued growth of our customer interaction services business.

Knowledge Processing Solutions (formerly described as Business Process Outsourcing)

Knowledge processing solution revenues consist of editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry; digital content conversion services to information organizations; pre-press project management services to book publishers; litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; conversion services of medical record/data from handwritten or speech format to electronic format and patient scheduling, coding and compliance assistance, consulting and specialized reporting services; and revenue cycle management services for U.S. medical facilities.

We provide our knowledge processing solutions primarily through the SPi Group, which ePLDT acquired on July 11, 2006. Knowledge processing solutions contributed revenues of Php5,261 million in 2007, an increase of Php2,887 million, or 122%, from Php2,374 million in 2006 primarily from SPi Group services, and accounted for 52% and 37% of total service revenues of our ICT business in 2007 and 2006, respectively.

Customer Interaction Services (formerly described as Call Center business)

Customer interaction service revenues consist of inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents; outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and service income for e-mail handling, web chat, web co-browsing, data entry and knowledge processing solutions based on transaction volume.

We provide our customer interaction services primarily through *ePLDT Ventus*. Revenues relating to our customer interaction services business increased by Php638 million, or 24%, to Php3,262 million in 2007 from Php2,624 million in 2006 primarily due to the expansion of our facilities. In total, we own and operate approximately 6,400 seats with 5,930 customer service representatives, or CSRs, in 2007 compared to approximately 5,600 seats with 5,130 CSRs in 2006. In 2006, *ePLDT Ventus* launched two new sites bringing our total customer interaction services site count to nine in 2007.

Customer interaction service revenues accounted for 33% and 41% of total service revenues of our ICT business in 2007 and 2006, respectively.

Internet and Online Gaming

Internet service revenues consist of revenues derived from actual usage of the internet access network by prepaid subscribers; monthly service fees from postpaid corporate and consumer subscribers; one-time fees generated from the reselling of internet-related solutions such as security solutions and domain registration; franchise and royalty fees for *Netopia* internet cafés; online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our internet and online gaming businesses increased by Php141 million, or 18%, to Php937 million in 2007 from Php796 million in 2006 primarily due to the consolidation of Level Up! in May 2006 which resulted in an increase in revenues by Php49 million, and an increase in Infocom s revenues by Php63 million. Our internet and online gaming business revenues accounted for 9% and 13% of total service revenues of our ICT business in 2007 and 2006, respectively.

*Vitro*ä *Data Center*

ePLDT operates an internet data center under the brand name *Vitro*ä which provides co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, webcasting and webhosting, shared applications, data disaster recovery and business continuity services, intrusion detection, and security services such as firewalls and managed firewalls.

*Vitro*ä revenues consist of monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value-added services; installation charges or one-time fees associated with the set-up of services and professional services of Vitro s certified professionals; and fees generated from the issuance of digital certificates and revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

In 2007, *Vitro*ä contributed revenues of Php595 million, an increase of Php52 million, or 10%, from Php543 million in 2006 primarily due to an increase in co-location revenues and server hosting. *Vitro*ä revenues accounted for 6% and 9% of service revenues of our ICT business in 2007 and 2006, respectively.

Please refer to *Note 9 Investments in Associates* to the accompanying unaudited consolidated financial statements for further discussion on ePLDT s investments.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain software licenses, server solutions, networking products, storage products and data security products. In 2007, non-service revenues generated by our ICT business decreased by Php286 million, or 52%, to Php267 million as compared to Php553 million in 2006 primarily due to lower revenues from sales of software and hardware licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our ICT business increased by Php466 million, or 364%, to Php594 million in 2007 as compared to Php128 million in 2006 primarily due to the dividend income from Stradcom Corporation, or Stradcom. Please see *Note 13 Investment in Debt Securities* to the accompanying unaudited consolidated financial statements for further discussion of our investment in Stradcom.

Expenses

Expenses associated with our ICT business totaled Php11,127 million in 2007, an increase of Php3,760 million, or 51%, from Php7,367 million in 2006 primarily due to the consolidation of the SPi Group and Level Up! in 2007 resulting to an increase in compensation and employee benefits, professional and other contracted services, communication, training and travel, and depreciation and amortization partially offset by lower cost of sales. As a percentage of our ICT revenues and other income, expenses related to our ICT business were 103% and 105% for 2007 and 2006, respectively.

The following table shows the breakdown of our total ICT-related expenses for the years ended December 31, 2007 and 2006 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
	2007	**%**	**2006**	**%**	**Amount**	**%**
(in millions)						
ICT services:						
Compensation and employee benefits(1)	Php5,455	49	Php3,021	41	Php2,434	81
Professional and other contracted services	1,129	10	739	10	390	53
Depreciation and amortization	934	8	711	10	223	31
Asset impairment	657	6	428	6	229	54
Rent	620	6	444	6	176	40

Communication, training and travel	523	5	276	4	247	89
Repairs and maintenance	504	5	368	5	136	37
Selling and promotions	321	3	293	4	28	10
Cost of sales	254	2	476	6	(222)	(47)
Amortization of intangible assets	232	2	138	2	94	68
Financing costs	111	1	113	1	(2)	(2)
Taxes and licenses	94	1	70	1	24	34
Provisions	54		64	1	(10)	(16)
Insurance and security services	49		35		14	40
Equity share in net losses of associates	11		52	1	(41)	(79)
Other expenses	179	2	139	2	40	29
Total	Php11,127	100	Php7,367	100	Php3,760	51

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(1) Includes salaries and employee benefits, incentive plan, pension and MRP costs.

Compensation and employee benefits increased by Php2,434 million, or 81%, to Php5,455 million largely due to the full consolidation of the SPi Group in 2007 and the expansion of our customer interaction services business.

Professional and other contracted services increased by Php390 million, or 53%, to Php1,129 million primarily due to higher consultancy fees and subcontracted services incurred by the SPi Group related to its knowledge processing solutions.

Depreciation and amortization charges increased by Php223 million, or 31%, to Php934 million primarily due to an increase in the depreciable asset base in relation to the expansion of our customer interaction services business and the full consolidation of the SPi Group in 2007.

Asset impairment increased by Php229 million, or 54%, to Php657 million mainly due to ePLDT s provision for impairment of goodwill mainly from an SPi investment and Level Up! amounting to Php1,162 million, partially offset by provision for impairment on notes receivable amounting to Php346 million in 2006 and the reversal of impairment loss of Php617 million related to our Stradcom investment in 2007. Please see *Note 13 Investment in Debt Securities* to the accompanying unaudited consolidated financial statements for further discussion of our investment in Stradcom.

Rent expenses increased by Php176 million, or 40%, to Php620 million primarily due to higher office space rentals and leased circuits from other carriers incurred by our customer interaction services business, the SPi Group and Level Up!.

Communication, training and travel expenses increased by Php247 million, or 89%, to Php523 million primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in local and foreign travel costs, mailing and courier charges, and freight and hauling charges incurred by our customer interaction service and knowledge processing solution businesses.

Repairs and maintenance expenses increased by Php136 million, or 37%, to Php504 million primarily due to higher maintenance costs for new customer interaction service facilities plus higher electricity charges for *Vitro*TM and the consolidation of the SPi Group and Level Up!.

Selling and promotion expenses increased by Php28 million, or 10%, to Php321 million mainly due to the SPi Group s higher advertising and marketing spending.

Cost of sales decreased by Php222 million, or 47%, to Php254 million primarily due to lower sales of software licenses and hardware products.

Amortization of intangible assets increased by Php94 million, or 68%, to Php232 million in relation to the acquisition of the SPi Group and Level Up!, as well as the acquisition of Springfield Service Corporation, or Springfield, by SPi in April 2007. Please see *Note 11 Goodwill and Intangible Assets* to the accompanying unaudited consolidated financial statements for further discussion.

Financing costs decreased by Php2 million, or 2%, to Php111 million in 2007 primarily due to a higher gain on derivative transactions recognized by our customer interaction service and knowledge processing solution businesses partially offset by higher accretion on financial liabilities particularly the contingent consideration in relation to the Springfield acquisition in 2007 and a higher loss on foreign exchange revaluation due to the appreciation of the peso in 2007.

Taxes and licenses increased by Php24 million, or 34%, to Php94 million primarily due to the full consolidation of the SPi Group in 2007 and higher business-related taxes.

Provisions decreased by Php10 million, or 16%, to Php54 million mainly due to lower than anticipated uncollectible accounts in 2007.

Insurance and security services increased by Php14 million, or 40%, to Php49 million primarily due to higher premium costs and an increase in the value of assets insured.

Equity share in net losses of associates amounted to Php11 million in 2007 compared to Php52 million in 2006 primarily due to ePLDT s share in net losses of unconsolidated investee companies.

Other expenses increased by Php40 million, or 29%, to Php179 million mainly due to higher business-related costs, such as office supplies.

Benefit from Income Tax

Benefit from income tax increased by Php80 million, or 216%, to Php117 million in 2007 primarily due to the corresponding deferred tax effect of the amortization of intangible assets in relation to the acquisition of the SPi Group and Level Up!. This also includes benefit from income tax pertaining to SPi s acquisition of Springfield in 2007.

Net Loss

In 2007, our ICT business segment registered a net loss of Php94 million, an improvement of 70% from a net loss of Php312 million in 2006 mainly as a result of the 56% increase in ICT-related revenues mainly from the consolidation of the SPi Group and Level Up! and higher benefit from income tax in 2007, partly offset by the 51% increase in ICT-related expenses mainly from the full consolidation of the SPi Group.

Plans and Prospects

We are the largest and most diversified telecommunications company in the Philippines. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to further expand our subscriber base and fortify our industry position. We also plan to maximize revenue opportunities by offering more value-driven products and services, while bundling and cross-selling voice and data offerings across our various platforms of fixed line, wireless and ICT. We intend to align as well the deployment of our fixed line and wireless platforms and technologies such that these initiatives dovetail with our delivery of services. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

For 2008, cash from operations will allow us to increase the level of our capital expenditures for the expansion and upgrading of our network infrastructure. We will make additional investments in our core facilities to maximize existing technologies and increase capacity. Our 2008 budget for consolidated capital expenditures is approximately Php25 billion, of which approximately Php15 billion is budgeted to be spent by Smart, approximately Php9 billion is budgeted to be spent by PLDT and the balance represents the budgeted capital spending of our other subsidiaries.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2007 and 2006 as well as our consolidated capitalization and other selected financial data as at December 31, 2007 and 2006:

	Years Ended December 31,	
	2007	**2006**
(in millions)		
Cash Flows		
Net cash provided by operating activities	Php77,355	Php67,739
Net cash used in investing activities	31,319	35,790
Capital expenditures	*24,824*	*20,674*
Net cash used in financing activities	44,756	44,428
Net increase (decrease) in cash and cash equivalents	577	(13,189)

	December 31,	
	2007	**2006**
(in millions)		
Capitalization		
Long-term portion of interest-bearing financial liabilities net of current portion:		
Long-term debt	Php53,372	Php63,769
Obligations under capital lease	15	106
Preferred stock subject to mandatory redemption		1,369
	53,387	65,244
Current portion of interest-bearing financial liabilities:		
Notes payable	493	201
Long-term debt maturing within one year	6,775	16,184
Obligations under capital lease maturing within one year	481	924
Preferred stock subject to mandatory redemption	1,015	
	8,764	17,309
Total interest-bearing financial liabilities	62,151	82,553
Total equity	112,511	104,067
	Php174,662	Php186,620
Other Financial Data		
Total assets	Php240,158	Php242,118
Property, plant and equipment - net	159,414	164,190

Cash and cash equivalents	17,447	16,870
Short-term investments	13,415	8,327

As at December 31, 2007, our consolidated cash and cash equivalents and short-term investments totaled Php30,862 million. Principal sources of consolidated cash and cash equivalents in 2007 were cash flows from operating activities amounting to Php77,355 million and drawings from Smart s, PLDT s and ePLDT s debt facilities aggregating Php7,647 million. These funds were used principally for dividend payments of Php28,470 million, capital outlays of Php24,824 million, total debt principal payments of Php18,258 million and interest payments of Php5,891 million.

Operating Activities

Our consolidated net cash flows from operating activities increased by Php9,616 million, or 14%, to Php77,355 million in 2007 from Php67,739 million in 2006. A significant portion of our cash flow is generated by our wireless business, which contributed approximately 59% of our total revenues and other income in 2007 and 57% in 2006. Revenues from our fixed line and ICT services accounted for 34% and 7%, respectively, of our total revenues and other income in 2007 compared to 38% and 5%, respectively, in 2006.

Cash flows from operating activities of our wireless business amounted to Php49,609 million in 2007, an increase of Php11,556 million, or 30%, compared to Php38,053 million in 2006. The increase in our wireless business segment s cash flows from operating activities was primarily due to the decrease in our working capital requirements in 2007 owing to the settlement of various payables in 2006. However, cash flows from operating activities of our fixed line business decreased to Php24,245 million due to higher working capital requirements in 2007, compared to Php29,720 million in 2006. The overall increase in our cash from operating activities was primarily due to a decrease in working capital requirements with lower level of settlements of various current liabilities, partially offset by higher billings of accounts receivable. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to defray our current liabilities as our current ratio is more than 1:1 as at December 31, 2007.

Until April 2006, Smart was subject to loan covenants that restricted its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders. Smart was able to obtain waivers from Finnvera and certain of its lenders for all dividend payments made by Smart to PLDT up to March 2006. Dividend payments made by Smart to PLDT after April 2006 did not require prior creditor consent as all loan facilities that contained such restrictions have already been repaid. Cash dividends paid by Smart to PLDT for the years ended December 31, 2007 and 2006 amounted to Php26,927 million and Php20,600 million, respectively.

In 2007, Piltel paid cash dividends to various preferred shareholders in the aggregate amount of Php2,943 million, of which Php2,930 million was paid to PLDT.

Investing Activities

Net cash used in investing activities amounted to Php31,319 million in 2007, a decrease of Php4,471 million, or 12%, compared to Php35,790 million in 2006. This was primarily a net result of a decrease in investments of Php8,602 million due to the acquisition of 100% equity interests in SPi and CyMed in 2006, partially offset by the increase in capital expenditures of Php4,150 million in 2007.

Our consolidated capital expenditures in 2007 totaled Php24,824 million, an increase of Php4,150 million, or 20%, from Php20,674 million in 2006 primarily due to Smart s and PLDT s higher capital spending. Smart's capital spending of Php14,179 million in 2007 was used primarily to further upgrade its core, access and transmission network facilities, expand its wireless broadband facilities and develop IT platforms for new businesses. PLDT's capital spending of Php9,912 million was principally used to finance the expansion and upgrade of its submarine cable facilities, fixed line data and IP-based network services. ePLDT and its subsidiaries capital spending of Php678 million was primarily used to fund its continued customer interaction services expansion. The balance represented other subsidiaries capital spending. Consolidated capital expenditures in 2006 amounted to Php20,674 million, of which Php10,506 million, Php8,902 million and Php1,132 million were attributable to Smart, PLDT and ePLDT, respectively.

Payments for purchase of investments in 2007 amounted to Php2,288 million, of which Php1,687 million and Php601 million were paid for the acquisitions of a 100% equity interest in Springfield and a 30% equity interest in BOW, respectively. In 2006, Php10,890 million were paid in relation to the purchase of the following: (a) a 100% equity interest in SPi and CyMed aggregating Php8,847 million; (b) the final settlement of the acquisition of Smart Broadband of Php1,201 million; (c) the purchase of a 60% equity interest in Level Up! of Php381 million; (d) the acquisition of approximately 25.5% equity interest in Philweb for Php428 million; and (e) the acquisition of the remaining 20% equity in Wolfpac for Php30 million.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses, which may or may not be significant.

Financing Activities

On a consolidated basis, we used net cash of Php44,756 million in 2007 for financing activities, net of loan drawings by Smart, an increase of Php328 million compared to Php44,428 million in 2006. The net cash used in financing activities was mainly utilized for debt repayments, interest payments, and dividend payments distributed to PLDT common and preferred stockholders.

Debt Financing

Additions to our consolidated long-term debt in 2007 totaled Php7,647 million mainly from Smart's drawings related to the financing of its network expansion projects. Payments in respect of principal and interest of our total debt amounted to Php18,258 million and Php5,891 million, respectively, in 2007, of which Php12,503 million in principal and Php4,451 million in interest were attributable to PLDT.

Our long-term debt decreased by Php19,806 million, or 25%, to Php60,147 million in 2007, largely due to debt amortizations and prepayments in line with efforts to reduce our overall debt level, and also due to the appreciation of the peso resulting to the lower peso revaluation of our foreign-currency denominated debts. The debt levels of PLDT, Smart and Mabuhay decreased by 35%, 1% and 45% to Php33,975 million, Php24,995 million and Php1,145 million, respectively, in 2007.

On November 27, 2007, the consent solicitation for the PLDT 11.375% Notes due 2012, 10.5% Notes due 2009 and 8.35% Notes due 2017, or the Notes, was completed after holders of more than 51% of the aggregate principal amount of the Notes gave their consents for the proposed amendments governing the Notes. The amendments allow PLDT greater flexibility to make certain restricted payments, pay dividends or distributions, while reducing PLDT s permitted leverage ratios pursuant to the terms of the Notes.

On May 22, 2007, PLDT signed loan agreements with The Philippine American Life and General Insurance Company for Php400 million and The Philam Bond Fund, Inc. for Php20 million to refinance their respective participations in the Ten-Year Note under the Php1,270 million Peso Fixed Rate Corporate Notes which were repaid on June12, 2007. Both loans will mature on June 12, 2014.

On February 15, 2007, Smart issued Php5 billion unsecured fixed rate corporate notes, made up of Series A notes amounting to Php3.8 billion and Series B notes amounting to Php1.2 billion with five and ten year terms, respectively. Series A notes were priced at 5.625%, while Series B notes were priced at 6.500%. Funds raised from the issuance of these notes will be used primarily for Smart s capital expenditures for network improvement and expansion.

Approximately Php24,398 million principal amount of our consolidated outstanding long-term debt in 2007 is scheduled to mature over the period from 2008 to 2011. Of this amount, Php11,165 million is attributable to PLDT, Php12,056 million to Smart and the remainder to Mabuhay Satellite and ePLDT.

For a complete discussion of our long-term debt, see *Note 18 Interest-bearing Financial Liabilities Long-term Debt* to the accompanying unaudited consolidated financial statements.

Debt Covenants

Our debt instruments contain restrictive covenants, including covenants that could prohibit us from paying dividends on common stock under certain circumstances, and require us to comply with specified financial ratios and other financial tests, calculated in conformity with Philippine Financial Reporting Standards, at relevant measurement dates, principally at the end of each quarterly period. We have complied with all of our maintenance financial ratios as required under our loan covenants and other debt instruments.

Please see *Note 18 Interest-bearing Financial Liabilities Debt Covenants* to the accompanying unaudited consolidated financial statements for a detailed discussion of our covenants.

Financing Requirements

We believe that our available cash, including cash flow from operations, will provide sufficient liquidity to fund our projected operating, investment, capital expenditures and debt service requirements for the next 12 months.

As a result of our strong cash flows and low debt levels, we have increased our dividend payout ratio to 70% of 2007 earnings per share from 60% of 2006 earnings per share.

On August 7, 2007, we declared a special dividend of Php40 per share attributable to our 2006 earnings. This special dividend is an incremental dividend payout representing approximately 25% of our 2006 earnings per share. As a result of such special dividend declaration, our total dividend payments attributable to our 2006 earnings increased to Php140 per share, inclusive of the regular dividends paid out of our 2006 earnings aggregating Php100 per share. In addition to the Php60 per share dividend declared last August 7, 2007, we declared on March 4, 2008 a regular cash dividend of Php68 per share and a special cash dividend of Php56 per share, representing close to a 100% of our 2007 earnings per share.

The following table sets forth the dividend declaration on PLDT s common stock pertaining to 2006 and 2007 earnings:

Earnings	**Date Approved**	**Record**	**Amount Payable**	**Per share**	**Total Declared** (in millions)
2006	August 8, 2006	August 21, 2006	September 21, 2006	Php50	Php9,379
2006	March 6, 2007	March 20, 2007	April 20, 2007	Php50	9,429
2006	August 7, 2007	August 24, 2007	September 24, 2007	Php40	7,548

				Php140	Php26,356
2007	August 7, 2007	August 24, 2007	September 24, 2007	Php60	Php11,322
2007	March 4, 2008	March 19, 2008	April 21, 2008	Php68	Php12,834
2007	March 4, 2008	March 19, 2008	April 21, 2008	Php56	Php10,570
				Php184	Php34,726

Credit Ratings

None of our existing indebtedness contains provisions under which credit rating downgrades would trigger a default, changes in applicable interest rates or other similar terms and conditions.

PLDT s current credit ratings are as follows:

Rating Agency	**Credit Rating**		**Outlook**
Standard & Poor s Ratings Services, or Standard & Poor s	Foreign Currency Rating	BB+	Stable
Moody s Investor Service, or Moody s	Foreign Currency Senior Unsecured Debt Rating	Ba2	Positive
	Local Currency Corporate Family Rating	Baa2	Stable
Fitch Ratings, or Fitch	Long-term Foreign Currency Rating	BB+	Stable
	Long-term Local Currency Rating	BB+	Stable
	Long-term Foreign Currency Issuer Default Rating, or IDR	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB	Stable
	National Long-term Rating	AAA(ph1)	Stable

On January 28, 2008, Moody s affirmed our foreign currency senior unsecured debt rating from stable to positive following the change in the outlook of the Philippines Ba3 country ceiling for foreign currency bonds to positive from stable.

On November 6, 2007, Standard and Poor s, Moody s and Fitch affirmed some of our local and foreign currency ratings following the consent solicitation announcement relating to our outstanding Notes due 2009, 2012 and 2017 to effect certain proposed amendments that would give us more flexibility to make investments and dividend payments. The affirmation also reflects our healthy financial and dominant market positions though counterbalanced by the uncertainty of the Philippines political and economic environment. However, any future upward ratings would be more reflective of a stabilizing economic, political and social environment reducing such uncertainties.

Off-Balance Sheet Arrangement

We have no existing material off-balance sheet arrangement, transactions or obligations as at December 31, 2007.

Equity Financing

PLDT raised Php73 million and Php63 million from the exercise by certain officers and executives of stock options in 2007 and 2006, respectively.

Cash dividend payments in 2007 amounted to Php28,470 million compared to Php14,913 million paid to preferred and common shareholders in 2006. In 2007, there were 188.7 million PLDT common shares outstanding compared to 188.4 million common shares outstanding as at December 31, 2006.

Contractual Obligations and Commercial Commitments

Contractual Obligations

For a discussion of our contractual obligations, see *Note 24 Contractual Obligations and Commercial Commitments* to the accompanying unaudited consolidated financial statements.

Commercial Commitments

As at December 31, 2007, our outstanding commercial commitments, in the form of letters of credit, amounted to Php3,782 million. These commitments will expire within one year.

Quantitative and Qualitative Disclosures about Market Risks

Our operations are exposed to various risks, including liquidity risk, foreign exchange risk, interest rate risk, credit risk and capital management. The importance of managing these risks has significantly increased in light of considerable change and continuing volatility in both the Philippine and international financial markets. With a view to managing these risks, we have incorporated financial risk management functions in our organization, particularly in our treasury operations, equity issues and sales of certain assets.

For further discussions of these risks, see *Note 24 Contractual Obligations and Commercial Commitments* and *Note 26 Financial Assets and Liabilities Financial Risk Management Objectives and Policies* to the accompanying unaudited consolidated financial statements.

Impact of Inflation and Changing Prices

Inflation can be a significant factor in the Philippine economy, and we are continually seeking ways to minimize its impact. In recent periods, we do not believe inflation has had a material impact on our operations. The average inflation rate in the Philippines in 2007 was 2.8% compared to 6.2% in 2006.

Related Party Transactions

For a detailed discussion of the related party transactions, see *Note 22 Related Party Transactions* to the accompanying unaudited consolidated financial statements.

ANNEX AGING OF ACCOUNTS RECEIVABLE

The following table shows the aging of unaudited consolidated receivables as at December 31, 2007:

Type of Accounts Receivable	Total	Current	31-60 Days	61-90 Days	Over 91 Days
			(In Millions)		
Retails subscribers	Php8,178	Php2,730	Php1,036	Php286	Php4,126
Foreign administrations	4,597	1,324	902	570	1,801
Corporate subscribers	8,685	1,457	1,118	576	5,534
Domestic carriers	1,884	103	91	96	1,594
Dealers and agents	2,156	1,446	15	1	694
Total	Php25,500	Php7,060	Php3,162	Php1,529	Php13,749
Less: Allowance for doubtful accounts ...	13,203				
Total Receivables - net	**Php12,297**				

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report for the fourth quarter of 2007 to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: /s/ Napoleon L. Nazareno

Napoleon L. Nazareno

President and Chief Executive Officer

Signature and Title: /s/ Anabelle Lim-Chua

Anabelle Lim-Chua

Senior Vice President and Treasurer

(Senior Financial Officer)

Signature and Title: /s/ June Cheryl A. Cabal-Furigay

June Cheryl A. Cabal-Furigay

Vice President and Controller

(Principal Accounting Officer)

March 4, 2008

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2007 AND 2006

AND FOR THE THREE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

AND

INDEPENDENT AUDITORS REPORT

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(in million pesos, except par value and per share amounts)

	2007 (Unaudited)	2006 (As restated Note 2)
ASSETS		
Noncurrent Assets		
Property, plant and equipment - net (Notes 2, 3, 5, 8, 18 and 26)	**159,414**	164,190
Investments in associates - at equity (Notes 2, 5, 9, 18 and 26)	**1,351**	636
Investments-available-for-sale (Notes 2 and 26)	**143**	116
Investments in debt securities (Notes 2 and 26)	**273**	
Investment properties (Notes 2, 3, 10 and 26)	**577**	587
Goodwill and intangible assets - net (Notes 2, 3, 5, 11 and 26)	**11,721**	12,214
Deferred income tax assets (Notes 2, 4, 6 and 26)	**13,754**	19,884
Derivative financial assets (Notes 2 and 26)	**59**	434
Prepayments - net of current portion (Note 26)	**2,280**	2,185
Advances and refundable deposits - net of current portion (Notes 2, 22 and 26)	**1,378**	1,066
Total Noncurrent Assets	**190,950**	201,312
Current Assets		
Cash and cash equivalents (Notes 2, 12 and 26)	**17,447**	16,870
Short-term investments (Notes 2 and 26)	**13,415**	8,327
Investments in debt securities (Notes 2 and 26)	**1,115**	
Trade and other receivables - net (Notes 2, 14, 22 and 26)	**12,297**	10,158
Inventories and supplies (Notes 2, 15 and 26)	**1,167**	1,230
Derivative financial assets (Notes 2 and 26)	**897**	47
Current portion of prepayments (Notes 16 and 26)	**2,371**	4,018
Current portion of advances and refundable deposits (Notes 2, 22 and 26)	**499**	156
Total Current Assets	**49,208**	40,806
TOTAL ASSETS	**240,158**	242,118
EQUITY AND LIABILITIES		
Equity Attributable to Equity Holders of PLDT (Notes 2, 7 and 17)		
Preferred stock, Php10 par value, authorized - 822,500,000 shares; issued and outstanding - 441,650,297 shares as at December 31, 2007 and 442,375,057 shares as at December 31, 2006	**4,417**	4,424
Common stock, Php5 par value, authorized - 234,000,000 shares; issued and outstanding - 188,740,519 shares as at December 31, 2007 and 188,434,695 shares as at December 31, 2006	**943**	942
Stock options issued (Note 23)	**9**	40
Equity portion of convertible preferred stock (Note 18)	**6**	9

Capital in excess of par value	**67,057**	66,574
Retained earnings (Note 7)	**39,576**	32,328
Cumulative translation adjustments (Note 26)	**(895)**	(1,796)
Total Equity Attributable to Equity Holders of PLDT	**111,113**	102,521
Minority interest	**1,398**	1,546
Total Equity	**112,511**	104,067

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (*continued*)

December 31, 2007 and 2006

(in million pesos, except par value and per share amounts)

	2007 (Unaudited)	2006 (As restated Note 2)
Noncurrent Liabilities		
Interest-bearing financial liabilities - net of current portion (Notes 2, 8, 18, 24 and 26)	**53,387**	65,244
Deferred income tax liabilities (Notes 2, 4, 6 and 26)	**2,155**	402
Derivative financial liabilities (Notes 2, 24 and 26)	**7,741**	6,872
Pension and other employee benefits (Notes 2, 3, 23 and 26)	**4,540**	2,982
Customers deposits (Note 25)	**2,201**	2,204
Deferred credits and other noncurrent liabilities (Notes 2, 3, 8, 14, 19 and 26)	**9,632**	8,025
Total Noncurrent Liabilities	**79,656**	85,729
Current Liabilities		
Accounts payable (Notes 2, 20, 22 and 26)	**12,253**	8,634
Accrued expenses and other current liabilities (Notes 2, 3, 18, 21, 22, 23, 24, 25 and 26)	**21,674**	22,613
Derivative financial liabilities (Notes 2, 24 and 26)	**242**	108
Provisions for assessments (Notes 22, 24, 25 and 26)	**1,112**	446
Current portion of interest-bearing financial liabilities (Notes 2, 8, 18, 24 and 26)	**8,764**	17,309
Dividends payable (Notes 2, 7, 18 and 26)	**1,071**	774
Income tax payable (Notes 2, 6 and 26)	**2,875**	2,438
Total Current Liabilities	**47,991**	52,322
TOTAL EQUITY AND LIABILITIES	**240,158**	242,118

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2007, 2006 and 2005

(in million pesos, except per share amounts)

	2007	2006	2005
		(As restated	
	(Unaudited)		Note 2)
REVENUES			
Service revenues (Note 4)	**135,476**	124,976	121,104
Non-service revenues (Notes 4 and 5)	**2,480**	2,967	3,312
Equity share in net income of associates (Note 4)			7
Other income (Note 4)	**3,667**	5,740	1,663
	141,623	133,683	126,086
EXPENSES			
Depreciation and amortization (Notes 4 and 8)	**28,613**	31,869	30,822
Compensation and employee benefits (Notes 5 and 23)	**20,470**	18,359	14,136
Repairs and maintenance (Note 22)	**7,310**	6,886	6,705
Selling and promotions	**5,824**	5,010	5,093
Professional and other contracted services (Notes 5 and 22)	**5,588**	3,149	2,464
Cost of sales (Notes 5, 22 and 24)	**4,844**	5,522	6,501
Financing costs (Notes 5, 8, 18 and 26)	**3,653**	9,084	9,133
Rent (Note 24)	**2,762**	2,257	2,086
Taxes and licenses (Note 25)	**2,319**	1,747	2,205
Communication, training and travel	**1,850**	1,481	1,465
Provisions (Notes 3, 4, 14, 15, 22, 24 and 25)	**1,326**	985	2,926
Insurance and security services (Note 22)	**1,197**	1,255	1,523
Asset impairment (Notes 3, 5, 8, 9 and 11)	**657**	1,819	26
Amortization of intangible assets (Notes 3 and 11)	**390**	450	244
Equity share in net losses of associates	**11**	52	
Other expenses (Note 22)	**1,552**	1,527	2,100
	88,366	91,452	87,429
INCOME BEFORE INCOME TAX	**53,257**	42,231	38,657
PROVISION FOR INCOME TAX (Notes 2, 4 and 6)	**17,279**	6,890	4,155
NET INCOME FOR THE YEAR	**35,978**	35,341	34,502
ATTRIBUTABLE TO:			
Equity holders of PLDT	**36,004**	35,138	34,135
Minority interest	**(26)**	203	367
	35,978	35,341	34,502
Earnings Per Common Share (Note 7)			
Basic	**188.42**	188.03	190.13
Diluted	**187.53**	187.93	185.87

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2007, 2006 and 2005

(in million pesos)

	Preferred Stock	Common Stock	Stock Options Issued	Equity Portion of Convertible Preferred Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Cumulative Translation Adjustments	Equity Attributable to Equity Holders of PLDT	Minority Interest	Total Equity
Balances at January 1, 2005										
As previously reported	**4,497**	**851**	**181**	**448**	**50,469**	**(10,478)**	**362**	**46,330**	**857**	**47,187**
Effect of change in accounting policy on revenue recognition of installation fees (Note 2)						(500)		(500)		(500)
As restated	4,497	851	181	448	50,469	(10,978)	362	45,830	857	46,687
Changes in equity:										
Net income for the year										
As previously reported						34,112		34,112	367	34,479
Effect of change in accounting policy on revenue recognition of installation fees (Note 2)						22		22		22
As restated						34,134		34,134	367	34,501
Foreign currency translation differences (Note 26)							(62)	(62)	(36)	(98)
Net gains on available-for-sale financial assets							4	4		4

(Note 26)										
Net gains on cash flow hedges (Note 26)							949	949		949
Total income and expense for the year recognized directly to equity							891	891	(36)	855
Total income and expense for the year						**34,134**	**891**	**35,025**	**331**	**35,356**
Cash dividends (Note 7)						**(11,051)**		**(11,051)**		**(11,051)**
Issuance of capital stock - net of conversion (Note 17)	**(64)**	**51**		**(399)**	**3,062**			**2,650**		**2,650**
Exercised shares		**2**	**(113)**		**386**			**275**		**275**
Cancelled options shares			**(1)**		**1**					
Minority interest									**(26)**	**(26)**
Balances at December 31, 2005 (As restated Note 2)	**4,433**	**904**	**67**	**49**	**53,918**	**12,105**	**1,253**	**72,729**	**1,162**	**73,891**
Balances at January 1, 2006										
As previously reported	**4,433**	**904**	**67**	**49**	**53,918**	**12,583**	**1,253**	**73,207**	**1,162**	**74,369**
Effect of change in accounting policy on revenue recognition of installation fees (Note 2)						(478)		(478)		(478)
As restated	4,433	904	67	49	53,918	12,105	1,253	72,729	1,162	73,891
Changes in equity:										
Net income for the year										
As previously reported						35,116		35,116	203	35,319
Effect of change in accounting policy on revenue recognition of installation fees (Note 2)						22		22		22
As restated						35,138		35,138	203	35,341

Foreign currency translation differences (Note 26)							(535)	(535)	(45)	(580)
Net losses on available-for-sale financial assets (Note 26)							(5)	(5)		(5)
Net losses on cash flow hedges (Note 26)							(2,509)	(2,509)		(2,509)
Total income and expense for the year recognized directly to equity							(3,049)	(3,049)	(45)	(3,094)
Total income and expense for the year						**35,138**	**(3,049)**	**32,089**	**158**	**32,247**
Cash dividends (Note 7)						**(14,915)**		**(14,915)**		**(14,915)**
Issuance of capital stock - net of conversion (Note 17)	**(9)**	**38**		**(40)**	**12,566**			**12,555**		**12,555**
Exercised shares			**(27)**		**90**			**63**		**63**
Minority interest									**226**	**226**
Balances at December 31, 2006 (As restated Note)	**4,424**	**942**	**40**	**9**	**66,574**	**32,328**	**(1,796)**	**102,521**	**1,546**	**104,067**

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (*continued*)

For the Years Ended December 31, 2007, 2006 and 2005

(in million pesos)

	Preferred Stock	Common Stock	Stock Options Issued	Equity Portion of Convertible Preferred Stock	Capital in Excess of Par Value	Retained Earnings	Cumulative Translation Adjustments	Equity Attributable to Equity Holders of PLDT	Minority Interest	Total Equity
Balances at January 1, 2007										
As previously reported	**4,424**	**942**	**40**	**9**	**66,574**	**32,784**	**(1,796)**	**102,977**	**1,546**	**104,523**
Effect of change in accounting policy on revenue recognition of installation fees (Note 2)						(456)		(456)		(456)
As restated	4,424	942	40	9	66,574	32,328	(1,796)	102,521	1,546	104,067
Changes in equity:										
Net income for the year						36,004		36,004	(26)	35,978
Foreign currency translation differences (Note 26)							(1,782)	(1,782)	(67)	(1,849)
Net gains on available-for-sale financial assets (Note 26)							30	30		30
Net gains on cash flow hedges (Note 26)							2,653	2,653		2,653
Total income and expense for the year recognized directly to equity							901	901	(67)	834
						36,004	**901**	**36,905**	**(93)**	**36,812**

Total income and expense for the year										
Cash dividends (Note 7)						**(28,756)**		**(28,756)**	**(12)**	**(28,768)**
Issuance of capital stock - net of conversion (Note 17)	**(7)**	**1**		**(3)**	**379**			**370**		**370**
Exercised shares (Note 23)			**(31)**		**104**			**73**		**73**
Minority interest									**(43)**	**(43)**
Balances at December 31, 2007 (Unaudited)	**4,417**	**943**	**9**	**6**	**67,057**	**39,576**	**(895)**	**111,113**	**1,398**	**112,511**

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007, 2006 and 2005

(in million pesos)

	2007	2006	2005
	(Unaudited)	(As restated Note 2)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**53,257**	42,231	38,657
Adjustments for:			
Depreciation and amortization (Notes 4 and 8)	**28,613**	31,869	30,822
Interest on loans and related items - net of capitalized interest (Note 5)	**5,714**	7,359	10,377
Accretion on financial liabilities - net (Notes 5 and 25)	**1,161**	3,314	2,882
Provision for assessments (Notes 3, 5, 22, 24 and 25)	**666**	38	196
Asset impairment (Note 5)	**657**	1,819	26
Provision for doubtful accounts (Notes 3, 5 and 14)	**417**	736	2,251
Amortization of intangible assets (Note 11)	**390**	450	244
Write-down of inventories to net realizable values (Notes 3, 5 and 16)	**243**	211	479
Dividends on preferred stock subject to mandatory redemption (Note 5)	**17**	130	251
Equity share in net losses (income) of associates (Note 4)	**11**	52	(7)
(Gains) losses on derivative financial instruments - net (Notes 5 and 26)	**(81)**	405	628
Interest income (Note 5)	**(1,503)**	(1,654)	(1,535)
Foreign exchange gains - net of capitalized foreign exchange gains (Notes 5, 17 and 25)	**(2,976)**	(1,967)	(4,906)
Others	**(1,567)**	(4,570)	(318)
Operating income before working capital changes	**85,019**	80,423	80,047
Decrease (increase) in:			
Trade and other receivables	**(3,266)**	(1,187)	(1,036)
Inventories and supplies	**(76)**	343	509
Prepayments	**1,862**	(1,513)	(3,293)
Advances and refundable deposits	**(307)**	1,329	(240)
Increase (decrease) in:			
Accounts payable	**4,763**	(9,254)	6,466
Accrued expenses and other current liabilities	**4,138**	1,613	2,457
Unearned revenues	**82**	534	(291)
Pension and other employee benefits	**(3,436)**	3,718	1,316
Net cash generated from operations	**88,779**	76,006	85,935
Income taxes paid	**(11,424)**	(8,267)	(9,722)
Net cash provided by operating activities	**77,355**	67,739	76,213
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	**(24,282)**	(20,125)	(14,486)
Proceeds from disposal of property, plant and equipment	**953**	694	912

Interest paid - capitalized to property, plant and equipment (Notes 5 and 8)	**(542)**	(549)	(504)
Payments for purchase of investments - net of cash acquired (Note 11)	**(2,288)**	(10,890)	(248)
Payments for acquisition of intangibles	**(213)**		
Proceeds from disposal of investment properties	**10**	72	11
(Increase) decrease in short-term investments	**(5,494)**	(5,508)	1,202
Decrease (increase) in investments in notes receivable		89	(60)
Increase in investments in debt securities	**(264)**		
Proceeds from disposal of investments-held-for-sale	**3**		
Interest received	**1,218**	1,481	1,408
Decrease (increase) in advances and refundable deposits	**(420)**	(1,054)	71
Net cash used in investing activities	**(31,319)**	(35,790)	(11,694)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued*)

For the Years Ended December 31, 2007, 2006 and 2005

(in million pesos)

	2007	2006	2005
		(As restated	
	(Unaudited)		Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt (Note 18)	**7,647**	9,724	5,471
Payments of long-term debt (Note 18)	**(18,065)**	(29,238)	(44,323)
Payments of debt issuance costs	**(54)**	(34)	(133)
Proceeds from notes payable	**502**	211	329
Payments of notes payable	**(193)**	(128)	(387)
Payments of obligations under capital lease	**(199)**	(210)	(38)
Interest paid - net of capitalized portion	**(5,891)**	(7,528)	(10,545)
Settlements of derivative financial instruments	**(848)**	(2,304)	(1,645)
Cash dividends paid	**(28,470)**	(14,913)	(10,972)
Proceeds from issuance of capital stock	**76**	66	285
Redemption of shares of minority interest	**(15)**		
Increase (decrease) in:			
Customers deposits	**12**	6	42
Other noncurrent liabilities	**742**	(80)	1,122
Net cash used in financing activities	**(44,756)**	(44,428)	(60,794)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(703)**	(710)	(987)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**577**	(13,189)	2,738
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**16,870**	30,059	27,321
CASH AND CASH EQUIVALENTS AT END OF YEAR	**17,447**	16,870	30,059

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT s corporate term is currently limited through 2028. In 1967, effective control of PLDT was sold by General Telephone and Electronics Corporation (a major shareholder since PLDT s incorporation) to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, First Pacific Company Limited, or First Pacific, and its Philippine and other affiliates, or collectively the First Pacific Group, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (UK) Ltd., or NTTC-UK, became PLDT s strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT. Simultaneous with NTT Communications investment in PLDT, we acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DoCoMo, Inc., or DoCoMo, acquired from NTT Communications approximately 7% of PLDT s outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT s common shares. On February 28, 2007, Metro Pacific Asset Holdings, Inc., a Philippine affiliate of First Pacific completed the acquisition of an additional interest of approximately 46% in Philippine Telecommunications Investment Corporation, or PTIC, a shareholder of PLDT. This additional investment in PTIC represents an attributable interest of approximately 7.1% of the issued common shares of PLDT and thereby raised First Pacific Group s beneficial ownership to approximately 26.27% of PLDT s shares of common stock as at that date. NTT DoCoMo has since increased its shareholdings to 13.34% of the outstanding common stock of PLDT as at end of January 2008.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, or PSE. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. Effective February 10, 2003, PLDT appointed JP Morgan Chase Bank as successor depositary for PLDT s ADR facility. The ADSs are listed on the New York Stock Exchange, or NYSE, in the United States and are traded on the NYSE under the symbol PHI . As at December 31, 2007, there were a total of over 37 million ADSs outstanding.

The ADSs were also listed on the NYSE Arca. However, on December 18, 2006, PLDT issued a notice of its intent to voluntarily delist its ADSs from NYSE Arca, after determining that doing so is in the best interest of PLDT and its stockholders as it would eliminate the duplicative administrative burdens and costs inherent in dual listing on both the NYSE and NYSE Arca. The actual delisting from the NYSE Arca became effective on February 12, 2007.

PLDT operates under the jurisdiction of the Philippine National Telecommunications Commission, or NTC, which jurisdiction extends, among other things, to approving major services offered by PLDT and certain rates charged by PLDT.

Our registered office address is Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines.

2. Summary of Significant Accounting Policies and Practices

Basis of Preparation

Our unaudited consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments, available-for-sale financial assets and investment properties that have been measured at fair values.

Our unaudited consolidated financial statements are presented in Philippine pesos, PLDT s functional and presentation currency and all values are rounded to the nearest million except when otherwise indicated.

Statement of Compliance

Our unaudited consolidated financial statements have been prepared in conformity with Philippine Financial Reporting Standards, or PFRS.

Changes in Accounting Policies

Revenue Recognition on Installation Fees

In 2007, we changed our revenue recognition policy for installation fees and have elected to defer and amortize our installation fees and its corresponding costs over the expected average periods of the customer relationship of our fixed line subscribers. Prior to 2007, we recognized installation fees and its corresponding cost outright.

We accounted for the change in accounting policy retroactively and accordingly restated our comparative consolidated financial statements to conform to the said change. The after tax effect of the change was an increase in our consolidated net income of Php119 million for the year ended December 31, 2007 and Php22 million for the years ended December 31, 2006 and 2005. Basic earnings per common share increased by Php0.70, Php0.12 and Php0.13 for the years ended December 31, 2007, 2006 and 2005, respectively.

Our consolidated unearned revenues related to the unamortized installation fees amounted to Php479 million, Php682 million and Php723 million as at December 31, 2007, 2006 and 2005, respectively, and are included in our Accrued and other current liabilities and Deferred credits and other noncurrent liabilities in the unaudited consolidated balance sheets.

Our accounting policies adopted are consistent with those of the previous financial year except for revenue recognition on installation fees as discussed above and the adoption of the following new and amendments to existing Philippine Accounting Standards, or PAS, PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee, or IFRIC, during the year. Our adoption of these new and revised standards and interpretations did not have any effect on our financial performance and/or position. Our adoption, however, gave rise to additional disclosures on the following:

• ***PFRS 7, Financial Instruments Disclosures*****.** This introduces new disclosures to improve information about our unaudited consolidated financial statements and the nature and extent of risks arising from financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*, see *Note 26 Financial Assets and Liabilities.*

• ***IFRIC 7, Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*****.** This became effective for annual periods beginning on or after January 1, 2007. The Interpretation requires that when a country becomes hyperinflationary, PAS 29 must be applied as if the country had always been hyperinflationary and it provides guidance on calculating deferred taxes and comparatives. As we do not operate in a hyperinflationary economy, this standard has no impact on the classification and valuation of our unaudited consolidated financial statements.

- ***IFRIC 8, Scope of PFRS 2, Share-based Payment*****.** This became effective for annual periods beginning on or after May 1, 2006. The Interpretation clarifies that PFRS 2 applies to arrangements in which an entity receives non-financial assets or services in consideration for the issue of equity instruments, or in which an entity incurs liabilities in respect of goods and services received that are based on the price of an entity s equity instruments. This is the case even when the entity cannot identify specifically some or all of the goods or services received. When the identifiable consideration appears to be less than the fair value of the instruments given, this is regarded as an indication that other consideration (i.e., unidentifiable goods or services) has been or will be received. The unidentifiable goods or services received are to be measured at the grant date as the difference between the fair value of the share-based payment (equity given or liability incurred) and the fair value of any identifiable goods or services received. For cash-settled transactions, the liability is to be remeasured at each reporting date until it is settled, in accordance to PFRS 2. The adoption of this standard has no significant impact on our unaudited consolidated financial statements.

- ***IFRIC 9, Reassessment of Embedded Derivatives*****.** This became effective for annual periods beginning on or after November 1, 2006. The Interpretation clarifies the point at which an entity should reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognized. It concludes that reassessment is prohibited unless, there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The adoption of this standard has no significant impact on our unaudited consolidated financial statements.

- ***IFRIC 10, Interim Financial Reporting and Impairment*****.** This became effective for annual periods beginning on or after November 1, 2006. The Interpretation states that the specific requirements of *PAS 36, Impairment of Assets* and *PAS 39, Financial Instruments: Recognition and Measurement* take precedence over the general requirements of *PAS 34, Interim Financial Reporting* any such impairment losses recognized in respect of these assets in an interim financial statement must not be reversed in subsequent interim period or annual consolidated financial statements. The adoption of this standard has no impact on our unaudited consolidated financial statements.

- ***IFRIC 11, PFRS 2, Group and Treasury Share Transactions*****.** This will become effective for annual periods beginning on or after March 31, 2007. This Interpretation addresses issues whether transactions should be accounted for as equity-settled or as cash-settled under PFRS 2 and issues concerning share-based payment arrangement involving entities within the same group. The adoption of this standard has no significant impact on our unaudited consolidated financial statements.

- ***Amendments to PAS 1, Presentation of Financial Statements Capital Disclosures*****.** This amendment requires us to include new disclosures to enable users of the unaudited consolidated financial statements to evaluate our objectives, policies and processes for managing capital. The adoption has had no significant impact on our unaudited consolidated financial statements except for additional disclosures as required by the standard. Our adoption of the amendments resulted in the inclusion of additional disclosures on capital management, see *Note 26 Financial Assets and Liabilities.*

Basis of Consolidation

Our unaudited consolidated financial statements include the unaudited financial statements of PLDT and those of the following significant subsidiaries (collectively, the PLDT Group).

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership Direct	Indirect
Wireless				
Smart	Philippines	Cellular mobile services	100.0	
Smart Broadband, Inc., or SBI	Philippines	Internet broadband distribution		100.0
Smartconnect Holdings Pte. Ltd., or SCH	Singapore	International trade of satellites and global system mobile, or GSM, telecommunications		100.0
I-Contacts Corporation, or I-Contacts	Philippines	Providing call center services		100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications development and services		100.0
Smartconnect Global Pte. Ltd., or SGP	Singapore	International trade of satellites and GSM telecommunications		100.0
3rd Brand Pte. Ltd., or 3rd Brand	Singapore	Solutions and systems integration services		85.0
Wireless Card, Inc., or WCI	Philippines	Promoting the sale and/or patronage of debit and/or charge cards		100.0
Smart Hub, Incorporated, or SHI	Philippines	Development and sale of software, maintenance and support services		100.0
Pilipino Telephone Corporation, or Piltel	Philippines	Cellular and fixed line services		92.1
Telesat, Inc., or Telesat	Philippines	Satellite communications services	100.0	
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite information and messaging services	88.5	11.5
Mabuhay Satellite Corporation, or Mabuhay Satellite	Philippines	Satellite communications services	67.0	
Fixed Line				
PLDT Clark Telecom, Inc., or ClarkTel	Philippines	Telecommunications services	100.0	
PLDT Subic Telecom, Inc., or SubicTel	Philippines	Telecommunications services	100.0	
PLDT Global Corporation, or PLDT Global	British Virgin Islands	Telecommunications services	100.0	
Smart-NTT Multimedia, Inc., or SNMI	Philippines	Data and network services	100.0	
PLDT-Maratel, Inc., or Maratel	Philippines	Telecommunications services	97.5	

Bonifacio Communications Corporation, or BCC	Philippines	Telecommunications, infrastructure and related value-added services	75.0	
Information and Communications Technology, or ICT				
ePLDT, Inc., or ePLDT	Philippines	Information and communications infrastructure for Internet-based services, e-commerce, call centers and IT-related services	100.0	
SPi Technologies, Inc., or SPi, and Subsidiaries, SPi Group	Philippines	Business process outsourcing, or BPO, services		100.0
ePLDT Ventus, Inc., or Ventus	Philippines	Call center services		100.0
Vocativ Systems, Inc., or Vocativ	Philippines	Call center services		100.0
Parlance Systems, Inc., or Parlance	Philippines	Call center services		100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet access services		99.6
netGames, Inc., or netGames	Philippines	Publisher of online games		80.0
Digital Paradise, Inc., or Digital Paradise, (formerly Netopia Computer Technologies, Inc.)	Philippines	Internet access services		75.0
Level Up! (Philippines), Inc., or Level Up!	Philippines	Publisher of online games		60.0
Airborne Access Corporation, or Airborne Access	Philippines	Wireless Internet services		51.0

Subsidiaries are fully consolidated from the date when control is transferred to the PLDT Group and cease to be consolidated from the date when control is transferred out of the PLDT Group.

We prepare our unaudited consolidated financial statements using uniform accounting policies for like transactions and other events with similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated upon consolidation.

Minority interests represent the equity interests in Piltel, Level Up!, Mabuhay Satellite, 3rd Brand, Maratel, BCC, Digital Paradise, Digital Paradise Thailand, netGames, Infocom, and Airborne Access, not held by the PLDT Group.

ePLDT s Acquisition of Level Up!

On February 16, 2006, ePLDT acquired a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines, for a total consideration of Php383 million. In August 2006, the shareholders agreement and share purchase agreement between ePLDT and Level Up! were amended to reflect the removal of earn-out and price adjustment provisions thereby fixing the acquisition for 60% equity interest of Level Up! at the original purchase price of US$7 million.

ePLDT s Acquisition of SPi

On July 11, 2006, ePLDT acquired a 100% equity interest in SPi and its direct and indirect Philippine and offshore subsidiaries as of such date for a total cash consideration of US$135 million, or Php7 billion. As part of the transaction, ePLDT also acquired a US$7 million, or Php365 million, debt owed by SPi to the seller at face value. In addition, ePLDT advanced US$16 million, or Php858 million, to SPi in order for SPi to fully pay its debt owed to DBS Bank of Singapore.

SPi s Acquisition of CyMed

On August 11, 2006, SPi in turn acquired a 100% equity interest in CyMed for an aggregate purchase price of US$33 million, or Php2 billion, inclusive of certain debt obligations. CyMed provides medical transcription services and technology products and is based in Richmond, Virginia, U.S.A.

SPi s Acquisition of Springfield Service Corporation, or Springfield

On April 12, 2007, SPi acquired, through a wholly-owned U.S.A. subsidiary, 100% of Springfield for an aggregate purchase price of US$35 million, or Php1,664 million, plus possible future earn-out payments with an aggregate fair value at acquisition date of US$18 million, or Php894 million, see *Note 11 Goodwill and Intangible Assets* for related discussion. As at December 31, 2007, total accreted value of possible future earn-out payments was US$25 million, or Php1,048 million. Springfield is one of the largest players in the medical billing and revenue cycle management market.

Incorporation of SPi Global Solutions Corporation, or SPi Global

On October 5, 2007, the Philippine Securities and Exchange Commission, or Philippine SEC, approved the incorporation of SPi Global, a wholly-owned subsidiary of ePLDT. SPi Global will be the holding company of the knowledge process outsourcing and customer interaction services of ePLDT.

Smart s Acquisition of Wolfpac

On May 8, 2006, Smart signed a share purchase agreement to acquire the remaining 20% equity interest in Wolfpac, a company engaged in the business of consumer mobile applications software and content development. Smart acquired an 80% equity interest in Wolfpac in October 2003.

Piltel s Equity Restructuring

On April 20, 2007, the Philippine SEC approved Piltel s request to undergo equity restructuring to eliminate its deficit as at December 31, 2006 amounting to Php22,251 million against its capital in excess of par. The equity restructuring was approved by Piltel s Board of Directors on March 5, 2007.

Investment of Smart in Smart Hub, Incorporated, or SHI

On June 13, 2007, Smart formed and invested Php1 million in SHI, a corporation created to engage in the development and sale of software, maintenance and support and other products and information technology related services, particularly electronic money remittance service.

Investment of Smart in Smartconnect Global Pte. Ltd., or SCH

On June 19, 2007, Smart formed SCH in Singapore to engage in satellite and GSM enabled global telecommunications, and in international trade with affiliates, subsidiaries, or branch offices in the Asia-Pacific Region and other foreign markets. The initial capitalization of SCH was SG$2.00, which was increased to SG$7.6 million in October 2007.

Investment of Smart in Smartconnect Global Pte. Ltd., or SGP

On October 1, 2007, Smart (through SCH) and ACeS signed a share purchase agreement whereby Smart agreed to purchase ACeS 100% equity interest in SGP, a private company incorporated in Singapore and engaged in international trade of satellites and GSM telecommunications. Total acquisition cost was SG$80 thousand, which represents the costs incurred by ACeS in setting up SGP.

Investment of Smart in 3rd Brand Pte. Ltd., or 3rd Brand

On October 8, 2007, Smart (through SCH) and Kolipri Communications, Ltd., or Kolipri, a corporation duly organized in the British Virgin Islands, signed a shareholders agreement whereby the two parties agreed that a new company, 3rd Brand shall own and market a software developed by Kolipri. 3rd Brand is expected to provide solutions and systems integration services, software development in IP-based mobile and web communications utilizing Kolipri s software. 3rd Brand was incorporated in Singapore with shareholders Smart and Kolipri owning 85% and 15% equity interest, respectively. Smart paid US$10 million for its equity share, while Kolipri assigned the software it developed as consideration for its 15% equity share in 3rd Brand.

Investments in Associates

Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. An associate is an entity in which we have significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate is carried in the balance sheet at cost plus post acquisition changes in our share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. Our consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, we recognize our share in any change and disclose this, when applicable, in our unaudited consolidated statements of changes in equity. Profits and losses resulting from our transactions with and among our associates are eliminated to the extent of the interest in the associate.

Our reporting dates and that of our associates are identical and our associate s accounting policies conform to those used by us for like transactions and events in similar circumstances.

Foreign Currency Translations

The functional and presentation currency of the PLDT Group (except for SCH, SGP, 3rd Brand, Mabuhay Satellite, PLDT Global, Digital Paradise Thailand and SPi and certain of its subsidiaries) is the Philippine peso. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the balance sheet date. All differences are recognized in the consolidated statement of income except for foreign exchange losses that qualify as capitalizable borrowing costs during the construction period. For income tax purposes, exchange gains or losses are treated as taxable income or deductible expenses in the year such exchange gains or losses are realized.

The functional currency and presentation currency of Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries is the U.S. dollar; Thai baht for Digital Paradise Thailand and Singapore dollar for SCH, SGP and 3rd Brand. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the reporting currency of the PLDT Group at the rate of exchange prevailing at the balance sheet date, and income and expenses of these subsidiaries are translated at the weighted average exchange rate for the year. The exchange differences arising on translation are taken directly to a separate component of equity as cumulative translation adjustments. On disposal of these subsidiaries, the amount of the cumulative translation adjustments recognized in equity relating to subsidiaries is recognized in the consolidated statement of income.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated 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, plant and equipment comprises its purchase price and any costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year 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, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency-denominated liabilities used to acquire such qualifying assets. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income of such period.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives and depreciation and amortization method are reviewed at least at each financial year-end to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property under construction is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Property under construction is not depreciated until such time that the relevant assets are completed and substantially available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest cost.

All other borrowing costs are expensed as incurred.

Borrowing costs arising from interest charges and exchange differences are treated as deductible expenses for income tax reporting purposes in the year they are incurred or realized, respectively.

Asset Retirement Obligations

We are legally required under various lease agreements to dismantle the installations on leased sites and restore such sites to their original condition at the end of the lease contract term. We recognized the fair value of the liability for these obligations and capitalized the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the useful lives of the related assets or the contract periods, whichever is shorter.

Investment Properties

Investment properties are initially measured at cost including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, we account for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of our acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, such cost being the excess of the cost of the business combination over our interest in the net fair value of the acquiree s identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment loss. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of our cash-generating units, or groups of our cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether our other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated: (1) represents our lowest level at which the goodwill is monitored for internal management purposes; and (2) is not larger than a segment based on either our primary or secondary reporting format determined in accordance with *PAS 14, Segment Reporting* .

Where goodwill forms part of a cash-generating unit, or group of cash generating units, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortized goodwill is recognized in the consolidated statement of income.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired from business combinations is initially recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

Intangible assets created within the business are not capitalized and expenditures are charged against operations in the year in which the expenditure is incurred.

Impairment of Non-Financial Assets

We assess at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when the annual impairment testing for an asset is required, we make an estimate of the asset s recoverable amount. An asset s recoverable amount is the higher of an asset s or cash-generating unit s fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case, the impairment is also recognized in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, we make an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset s recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation charged is adjusted in future years to allocate the asset s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units, is less than the carrying amount of the cash-generating unit, or group of cash-generating units, to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible Assets

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as appropriate.

Investments in Associates

After application of the equity method, we determine whether it is necessary to recognize an additional impairment loss of our investment in associates. We determine at each balance sheet date whether there is any objective evidence that our investment in an associate is impaired. If this is the case, we calculate the amount of impairment as being the difference between the fair value of the investment in associate and the carrying amount and recognize the amount in the consolidated statement of income.

Research and Development Costs

Research and development costs are expensed as incurred.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments are money market placements, which are highly liquid with maturities of more than three months but less than one year from date of acquisition.

Trade and Other Receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income. When a trade receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are recognized as income in the consolidated statement of income.

Inventories and Supplies

Inventories and supplies which include cellular phone units, materials, spare parts, terminal units and accessories, are valued at the lower of cost and net realizable value.

Cost is determined using the moving average method. Net realizable value is the estimated selling price in the ordinary course of the business less the estimated cost to sell.

Convertible Preferred Stock

Philippine Peso-denominated

The component of our convertible preferred stock that exhibits characteristics of a liability is recognized as a liability in the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. On issuance of our convertible preferred stock, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortized cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognized and included in the equity section of the consolidated balance sheet, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preferred stock based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Foreign currency-denominated

We treated the Series VI and VII Convertible Preferred Stock as debt instruments with embedded call options. The fair value of embedded call options as of issuance date was bifurcated and thereafter accounted for separately at fair value through profit or loss. The residual amount was assigned as a liability component and accreted to the redemption amount up to the call option date using the effective interest rate method.

Provisions

We recognize provisions when we have present obligations, legal or constructive, as a result of past events, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where we expect some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as additional provisions.

Retirement Benefits

Defined Benefit Pension Plans

We have funded retirement plans, administered by our respective Fund s Trustees, covering permanent employees. Retirement costs are actuarially determined using the projected unit credit of accrued benefit valuation method. This method 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. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Defined Contribution Plans

Smart and I-Contacts record expenses for defined contribution plans for their contribution when the employee renders service to Smart and I-Contacts, respectively, essentially coinciding with their cash contributions to the plans.

Share-Based Payment Transactions

Certain of our employees (including directors) receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in *Note 23 Employee Benefits*. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of PLDT (market conditions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that will ultimately vest, in the opinion of PLDT s Board of Directors, at that date, based on the best available estimate.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, an expense, at a minimum, is recognized as if the terms had not been modified. An expense is recognized for any increase in the value of the transactions as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were modifications of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share, see *Note 7 Earnings Per Common Share*.

Cash-settled transactions

Our Long-Term Incentive Plan, or LTIP, grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from our eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled, in the consolidated statement of income for the year.

Leases

The determination of whether an arrangement contains a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception date of the lease only if the following criteria apply: (1) there is a change in the contractual terms, other than a renewal or extension of the arrangement; (2) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term; (3) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (4) there is a substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases, as the case may be, from the date when the change in circumstances gives rise to the reassessment for scenarios (1), (3) or (4) and at the date of renewal or extension period for scenario (2).

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of *IFRIC 4, Determining Whether an Arrangement Contains a Lease*.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating taxes.

A finance lease gives rise to a depreciation expense for the asset, as well as an interest expense for each year. Finance charges are charged directly to current operations. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that we will obtain ownership of the leased asset at the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are deferred and amortized on a straight-line method over the lease term on the same bases as the lease income. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term. For income tax reporting purposes, expenses that should have been incurred under a lease agreement are considered as deductible expenses.

Revenue Recognition

Revenues for services are stated at amounts invoiced to customers, net of value-added tax, or VAT, or overseas communication tax, or OCT, where applicable. We provide wireless communication, fixed line communication, and ICT services. We provide such services to mobile, business, residential and payphone customers. Revenues represent the value of fixed consideration that have been received or are receivable. Revenues are recognized when there is evidence of an arrangement, collectibility is reasonably assured, and the delivery of the product or rendering of service has occurred. In certain circumstances, revenue is split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transactions. The value of components is determined using verifiable objective evidence. Under certain arrangements where the above criteria are met, but there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service, and such amount is determined to be recoverable. We do not provide our customers with the right to a refund.

Service revenues

Subscriptions

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Installation and activation-related fees and the corresponding costs, not exceeding the activation revenue, are deferred and recognized over the expected average periods of customer relationship for fixed line and cellular service. Postpaid service arrangements include subscription fees, typically fixed monthly fees, which are recognized over the subscription period on a pro rata basis.

Air time, traffic and value-added services

Prepaid service revenues collected in advance are deferred and recognized based on the earlier of actual usage or upon expiration of the usage period. Interconnection revenues for call termination, call transit, and network usage are recognized in the year the traffic occurs. Revenues related to local, long distance, network-to-network, roaming and international call connection services are recognized when the call is placed or connection is provided, net of amounts payable to other telecommunication carriers for terminating calls in their territories. Revenues related to products and value-added services are recognized upon delivery of the product or service.

Business Process Outsourcing, or BPO

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to us and the amount of revenue can be measured reliably. Advance customer receipts that have not been recognized as revenue in accordance with its stated policies are recorded as advances from customers and presented as a liability in the consolidated balance sheet. If the fee is not fixed or determinable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until a written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

Incentives

We record insignificant commission expenses based on the number of new subscriber connections initiated by certain dealers. All other cash incentives provided to dealers and customers are recorded as a reduction of revenue. Product-based incentives provided to dealers and customers as part of a transaction are accounted for as multiple element arrangements and recognized when earned.

Non-service revenues

Handset and equipment sales

Sales of cellular handsets and communication equipment are recognized upon delivery to the customer.

Interest income

Interest income is recognized as it accrues on a time proportion basis taking into account the principal amount outstanding and the effective interest rate.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the balance sheet date.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences except: (1) when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and (2) with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax, or MCIT, and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits and unused tax losses can be utilized except: (1) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and (2) with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in other subsidiaries and associates, deferred tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is included in the related equity account and not in the consolidated statement of income.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to offset deferred income tax assets against deferred income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Earnings Per Common Share, or EPS

Basic EPS is calculated by dividing the consolidated net income for the year attributable to common shareholders (consolidated net income adjusted for dividends on all series of preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividend declarations.

Diluted EPS is calculated in the same manner assuming that, at the beginning of the year or at the time of issuance during the year, all outstanding options are exercised and convertible preferred shares are converted to common shares, and appropriate adjustments to consolidated net income are effected for the related expenses and income on preferred shares. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the year exceeds the exercise price of the option.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have an anti-dilutive effect, basic and diluted EPS are stated at the same amount.

If the required dividends to be declared on each series of convertible preferred shares divided by the number of equivalent common shares, assuming such convertible preferred shares are converted to common shares, would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. As such, the diluted EPS will be calculated by dividing consolidated net income attributable to common shareholders (consolidated net income, adding back any dividends and/or other charges recognized in the year related to the dilutive convertible preferred shares classified as liability, less dividends on non-dilutive preferred shares except for dividends on preferred stock subject to mandatory redemption) by the weighted average number of common shares including the common share equivalent arising from the conversion of the dilutive convertible preferred shares.

Investments and Other Financial Assets and Liabilities

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. We determine the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that we commit to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in profit or loss. Assets in this category are classified as current assets.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on them on a different basis; or (ii) the assets and liabilities are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets and liabilities contains an embedded derivative that would need to be separately recorded. An embedded derivatives is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and (c) the hybrid instrument is not recognized at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Assets in this category are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. They are included in non-current assets unless we intend to dispose of the investment within 12 months of the balance sheet date.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm s length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when we have the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process. Assets in this category are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. We determine whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Impairment of Financial Assets

We assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortized cost

For loans and receivables carried at amortized cost, we assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the income account.

The present value of the estimated future cash flows is discounted at the financial asset s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial assets

In case of equity investments classified as available-for-sale asset, this would include a significant or prolonged decline in the fair value of the investments below its cost.

Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income, is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statements of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of Interest income in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated as at fair value through profit or loss . After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when: (1) the rights to receive cash flows from the asset have expired; (2) we retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a pass through arrangement; or (3) we have transferred our right to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Where we have transferred our right to receive cash flows from an asset and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of our continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that we could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of our continuing involvement is the amount of the transferred asset that we may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of our continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Derivative Financial Instruments and Hedging

We use derivative financial instruments such as long-term currency swaps, foreign-currency options, forward currency contracts and interest rate swaps to hedge our risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the gain or loss on derivative transaction account in the consolidated statement of income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of long-term currency swaps, foreign currency options and interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as: (1) fair value hedges when hedging the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment (except for foreign-currency risk); (2) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized financial asset or liability or a highly probable forecast transaction or the foreign-currency risk in an unrecognized firm commitment; or (3) hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, we formally designate and document the hedge relationship to which we wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument s effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. For situation when that hedged item is a forecast transaction, we assess whether transaction is highly probable and prevent an exposure to variations in cash flows that could ultimately affect the income statement.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognized in the consolidated statement of income. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated statement of income.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the consolidated statement of income over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest rate method is used is amortized through the consolidated statement of income.

Amortization may begin as soon as an adjustment exists, beginning no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the consolidated statement of income.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as financial asset or liability with a corresponding gain or loss recognized in the consolidated statement of income. The changes in the fair value of the hedging instrument are also recognized in the consolidated statement of income.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the consolidated statement of income.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects the consolidated statement of income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the consolidated statement of income.

New Accounting Standards Subsequent to 2007

Following are the new PFRS and IFRIC, which will be effective subsequent to December 31, 2007:

- ***PFRS 8, Operating Segments*** **.** This will become effective beginning on or January 1, 2009 and will replace PAS 14 and adopts a full management approach to identifying and measuring the results of reporting segment information. The requirements of this standard will be included on our unaudited consolidated financial statements when the standard is adopted.

• ***PAS 23, Borrowing Costs Revised.*** This will become effective for annual periods beginning on or after January 1, 2009. The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that assets. The scope of the standard has been amended and the revised standard is not required to be applied to borrowing costs directly attributable to: (1) qualifying assets measured at fair value, e.g. financial or biological assets. However, entities are not prohibited from presenting items in the income statement as of borrowing costs had been capitalized, before measuring the items at fair value; or (2) inventories that are manufactured in large quantities on a repetitive basis. The requirements of this standard will be included in our unaudited consolidated financial statements when the standard is applied.

• ***PAS 1 (Revised), Presentation of Financial Statements .*** This will become effective for annual periods beginning on or after January 1, 2009. PAS 1 has been revised to enhance the usefulness of information presented in the consolidated financial statements. The key changes are: (1) the statement of changes in equity includes only transactions with owners and all non-owner changes are presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity ; (2) the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in profit or loss together with other comprehensive income . The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate income statement and a statement of comprehensive income; (3) amounts reclassified to profit or loss that were previously recognized in other comprehensive income (for example, previously unrealized gains on available-for-sale financial assets that are sold) must be separately disclosed, either in the statement of comprehensive income itself or in the notes; (4) entities must disclose the income tax relating to each component of other comprehensive income. This can be presented in the statement of comprehensive income itself or in the notes; (5) when an entity restates its financial statements or retrospectively applies a new accounting policy, a statement of financial position must be presented as at the beginning of the earliest comparative period; (6) dividends to equity holders can now be shown only in the statement of changes in equity or in the notes; and (7) the introduction of new terminology, replacing balance sheet with statement of financial position and cash flow statement with statement of cash flows , although the titles are not obligatory. The requirements of this standard will be included in our unaudited consolidated financial statements when the standard is applied.

• ***IFRIC 12, Service Concession Arrangements .*** This will become effective for annual periods beginning on or after January 1, 2008. This interpretation applies to contractual arrangements whereby a private sector participates in the development, financing, operation and maintenance of infrastructure for public sector services, is not relevant to our current operations.

• ***IFRIC 13, Customer Loyalty Programmes .*** This will become effective for annual periods beginning on or after July 1, 2008. The interpretation requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transactions. The consideration received in the sales transactions is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. If the cost of fulfilling the awards is expected to exceed the consideration received, the entity will have an onerous contract and a liability for the excess must be recognized.

• ***IFRIC 14, PAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** **.** This will become effective for annual periods beginning on or after January 1, 2008. IFRIC 14 addresses how to assess the limit under *PAS 19 Employee Benefits* , on the amount of the pension scheme surplus that can be recognized as an asset in our consolidated balance sheet, in particular, when a minimum funding requirement exists. The specific issues addressed by the interpretation are: (1) a refund is available to the entity only if there is an unconditional right to the refund. The refund is measured as the amount of the surplus at the balance sheet date less any associated costs; (2) when there is an unconditional right to a refund and there is no minimum funding requirement, an entity determines the benefit available as the lower of the surplus in the plan and the present value of the future service cost to the entity; (3) when a minimum funding requirement exists, the benefit available is the present value of the estimated future service cost less the estimated minimum funding contribution required in respect of the future accrual of benefits in that year; and (4) if an entity has a minimum funding requirement to pay additional contributions, the entity must determine whether the contributions will be available as a refund or reduction in future contributions after they are paid into the plan. If not, a liability is recognized when the obligation arises. The requirements of this standard will be included in our unaudited consolidated financial statements when the standard is applied.

We expect that the adoption of the pronouncements listed above will have no significant impact on our unaudited consolidated financial statements in the period of our initial application.

3. Management s Use of Judgments, Estimates and Assumptions

The preparation of our unaudited consolidated financial statements in conformity with PFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and disclosure of contingent assets and liabilities at the date of our unaudited consolidated financial statements, and the reported amounts of revenues and expenses during the year and related notes. In preparing our unaudited consolidated financial statements, we have made our best judgments, estimates and assumptions of certain amounts, giving due consideration to materiality. We believe the following represents a summary of these significant judgments, estimates and assumptions and related impacts and associated risks to our unaudited consolidated financial statements.

Estimating useful lives of property, plant and equipment

We estimate the useful lives of our property, plant and equipment based on the periods over which our assets are expected to be available for use. Our estimation of the useful lives of our property, plant and equipment is based on our collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of our property, plant and equipment are reviewed at each financial year-end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of our assets. It is possible, however, that future results of operations could be materially affected by changes in our estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of our property, plant and equipment would increase our recorded operating expenses and decrease our noncurrent assets.

Total carrying values of property, plant and equipment, net of accumulated depreciation and amortization amounted to Php159,414 million and Php164,190 million as at December 31, 2007 and 2006, respectively, see *Note 8 Property, Plant and Equipment*.

Goodwill and intangible assets

Purchase method of accounting requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree s identifiable assets and liabilities at the acquisition date. It also requires the acquiree to recognize goodwill. Our business acquisitions have resulted in goodwill and intangible assets, which are subject to periodic impairment test and amortization, respectively, see *Note 11 Goodwill and Intangible Assets*.

Total carrying values of goodwill and intangible assets as at December 31, 2007 and 2006 amounted to Php11,721 million and Php12,214 million, respectively. Impairment losses recognized for the years ended December 31, 2007 and 2006 amounted to Php1,244 million and Php50 million, respectively, and none for the year ended December 31, 2005.

Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires us to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Determining the fair values of property, plant and equipment, investments and intangible assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires us to make estimates and assumptions that can materially affect our unaudited consolidated financial statements. Future events could cause us to conclude that property, plant and equipment, investments and intangible assets associated with an acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

The preparation of estimated future cash flows involves significant judgments and estimations. While we believe that our assumptions are appropriate and reasonable, significant changes in our assumptions may materially affect our assessment of recoverable values and may lead to future additional impairment charges under PFRS. Net reversal of impairment charges for the year ended December 31, 2007 amounted to Php592 million, see *Note 13 Investments in Debt Securities* for the reversal of provision for decline in value of investment in Stradcom International Holdings, Inc., or SIHI. Total impairment charges for the years ended December 31, 2006 and 2005 amounted to Php1,769 million and Php26 million, respectively, see *Note* 5 *Income and Expenses*.

The carrying value of our property, plant and equipment, investments in associates and intangible assets are separately disclosed in *Notes 8, 9* and *11*, respectively.

Investment properties

We have adopted the fair value approach in determining the carrying value of our investment properties. We opted to rely on independent appraisers in determining the fair values of our investment properties, and such fair values were determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of those transactions. The amounts and timing of recorded changes in fair value for any period would differ if we made different judgments and estimates or utilized a different basis for determining fair value.

Total carrying values of our investment properties as at December 31, 2007 and 2006 amounted to Php577 million and Php587 million, respectively, see *Note 10 Investment Properties*.

Realizability of deferred income taxes

We review the carrying amounts of deferred income tax assets at each balance sheet date and reduce these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Our assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses. However, there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred income tax assets to be utilized.

As management believes, it will have no sufficient future taxable income to utilize the benefits of deductible temporary differences, we have unrecognized certain of our deferred income tax assets as at December 31, 2007 and 2006 amounting to Php1,122 million and Php299 million, respectively, see *Note 6 Income Tax*.

Determination of fair values of financial assets and liabilities

We carry certain of our financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring, see *Note 26 Financial Assets and Liabilities*. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if we utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would directly affect our consolidated statement of income and equity.

Total fair value of financial assets and liabilities as at December 31, 2007 amounted to Php46,728 million and Php114,661 million, respectively, while the total fair value of financial assets and liabilities as at December 31, 2006 amounted to Php36,599 million and Php128,599 million, respectively, see *Note 26 Financial Assets and Liabilities*.

Estimating allowance for doubtful accounts

We estimate the allowance for doubtful accounts related to our trade receivables that are specifically identified to be doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, we use judgment based on the best available facts and circumstances, including but not limited to, the length of our relationship with the customer and the customer s credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated.

In addition to specific allowance against individually significant receivables, we also assess a collective impairment allowance against credit exposures of our customer which were grouped based on common characteristic, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers. This collective allowance is based on various factors such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Provision for doubtful accounts amounted to Php417 million, Php736 million and Php2,251 million for the years ended December 31, 2007, 2006 and 2005, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php12,297 million and Php10,158 million as at December 31, 2007 and 2006, respectively, see *Note 5 Income and Expenses* and *Note 14 Trade and Other Receivables*.

Asset retirement obligations

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the balance sheet date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php952 million and Php831 million as at December 31, 2007 and 2006, respectively, see *Note 8 Property, Plant and Equipment* and *Note 19 Deferred Credits and Other Noncurrent Liablities*.

Revenue recognition

Our revenue recognition policies require us to make use of estimates and assumptions that may affect the reported amounts of our revenues and receivables.

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our unaudited consolidated financial statements. Differences between the amounts initially recognized and the actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates will not result in material adjustments in future periods.

Revenues under a multiple element arrangement specifically applicable to our wireless business are split into separately identifiable components and recognized when the related components are delivered in order to reflect the substance of the transaction. The fair value of components is determined using verifiable objective evidence.

Under certain arrangements with our BPO services, if there is uncertainty regarding the outcome of the transaction for which service was rendered, revenue is recognized only to the extent of expenses incurred for rendering the service and such amount is determined to be recoverable.

Estimation of pension cost and other retirement benefits

The determination of our obligation and cost for pension and other retirement benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in *Note 23 Employee Benefits* and include, among other things, discount rates, expected returns on plan assets and rates of compensation increases. In accordance with PFRS, actual results that differ from our assumptions are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. While we believe that our assumptions are reasonable and appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other retirement obligations. Total pension benefit cost amounted to Php1,773 million, Php1,003 million and Php776 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Unrecognized net actuarial gain as at December 31, 2007 amounted to Php1,342 million and unrecognized net actuarial loss as at December 31, 2006 amounted to Php4,657 million. The accrued benefit cost as at December 31, 2007 and 2006 amounted to Php2,985 million and Php2,888 million, respectively, see *Note 23 Employee Benefits*.

Share-based payment transactions

Our LTIP grants SARs to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from the eligible key executives and advisors, and our liability to pay for those services, as the eligible key executives and advisors render services during the vesting period. We measure our liability, initially and at each reporting date until settled, at the fair value of the SARs, by applying an option valuation model, taking into account the terms and conditions on which the SARs were granted, and the extent to which the eligible key executives and advisors have rendered service to date. We recognize any changes in fair value at each reporting date until settled, in the results of operations for the year. The assumptions and estimates are described in *Note 23 Employee Benefits* and include, among other things, annual stock volatility, risk free interest rate, remaining life, and the fair value of common stock. While management believes that the assumptions and estimates used are reasonable and appropriate, significant differences in our actual experience or significant changes in the assumptions may materially affect the stock compensation costs charged to operations. The fair value of the LTIP recognized as an expense for the years ended December 31, 2007, 2006 and 2005 amounted to Php1,448 million, Php3,150 million and Php1,214 million, respectively. As at December 31, 2007 and 2006, total LTIP liability amounted to Php1,591 million and Php5,030 million, respectively, see *Note 5 Income and Expenses* and *Note 23 Employee Benefits*.

Legal contingencies

We are currently involved in various legal proceedings. Our estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling our defense in these matters and is based upon an analysis of potential results. We currently do not believe these proceedings will have a material adverse effect on our unaudited consolidated financial statements. It is possible, however, that future results of operations could be materially affected by changes in our estimates or in the effectiveness of our strategies relating to these proceedings, see *Note 25 Provisions and Contingencies.*

Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the PLDT Group, the functional and presentation currency of the PLDT Group (except for SCH, SGP, 3rd Brand, Mabuhay Satellite, PLDT Global, Digital Paradise Thailand and SPi and certain of its subsidiaries) is the Philippine peso. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the balance sheet date. All differences are taken to the consolidated statement of income except for foreign exchange losses that qualify as capitalizable borrowing costs during the construction period. For income tax purposes, exchange gains or losses are treated as taxable income or deductible expenses in the year such gains or losses are realized.

The functional currency of Mabuhay Satellite, PLDT Global, SPi and certain of its subsidiaries is the U.S. dollar; Thai baht for Digital Paradise Thailand and Singapore dollar for SCH, SGP and 3rd Brand. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the reporting currency of the PLDT Group at the rate of exchange prevailing at the balance sheet date and its income and expenses are translated at the weighted average exchange rate for the year. The exchange differences arising on translation are taken directly to a separate component of equity as cumulative translation adjustments. On disposal of these subsidiaries, the amount of deferred cumulative translation adjustments recognized in equity relating to subsidiaries is recognized in the consolidated statement of income.

The functional currencies of the PLDT Group are the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

4. Segment Information

Operating segments are components of PLDT that engage in business activities from which they may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of PLDT), whose operating results are regularly reviewed by the enterprise s chief operating decision-maker to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available. The accounting policies of the reportable segments are the same as those described in *Note 2 Summary of Significant Accounting Policies and Practices*.

We have organized our business into three main segments:

- Wireless - wireless telecommunications services provided through our cellular service providers namely, Smart and Piltel, SBI, our wireless broadband provider, and Wolfpac, our wireless content operator, and Mabuhay Satellite, ACeS Philippines and Telesat, our satellite and very small aperture terminal, or VSAT operators;

- Fixed Line - fixed line telecommunications services primarily provided through PLDT. We also provide fixed line services through PLDT s subsidiaries: ClarkTel, SubicTel, Maratel, Piltel, BCC, PLDT Global and SNMI, which together account for approximately 3% of our consolidated fixed line subscribers; and

- ICT - information and communications infrastructure and services for internet applications, IP-based solutions and multimedia content delivery provided by ePLDT; knowledge processing solutions provided by SPi Group (consolidated beginning July 11, 2006); customer interaction services provided under the umbrella brand name *ePLDT Ventus*, through Ventus, Parlance and Vocativ; and internet access and online gaming services provided by Infocom, Digital Paradise, Digital Paradise Thailand, netGames, Airborne Access and Level Up!.

Transfer prices between business segments are set on an arm s-length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. These transfers are eliminated in consolidation.

The segment assets and results of operations of our reportable segments as at and for the years ended December 31, 2007, 2006 and 2005 are as follows:

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
			(in million pesos)		
As at and for the years ended December 31, 2007 (Unaudited)					
Income					
Service revenues	86,497	48,551	10,055	(9,627)	135,476
Non-service revenues	2,054	281	267	(122)	2,480
Other income	973	2,190	594	(90)	3,667
Segment income	89,524	51,022	10,916	(9,839)	141,623
Result					
Income (loss) before income tax	45,731	7,668	(211)	69	53,257
Provision for (benefit from) income tax	15,001	2,395	(117)		17,279
Net income (loss) for the year	30,730	5,273	(94)		35,978

Assets and liabilities					
Segment assets	90,707	180,533	18,290	(63,126)	226,404
Deferred income tax assets	1,647	12,030	77		13,754
Total assets	92,354	192,563	18,367	(63,126)	240,158
Segment liabilities	50,579	78,317	5,697	(9,101)	125,492
Deferred income tax liabilities	1,660		495		2,155
Total liabilities	52,239	78,317	6,192	(9,101)	127,647
Cash flows					
Net cash provided by (used in):					
Operating activities	49,609	24,245	1,877	1,624	77,355
Investing activities	(19,919)	26,096	(2,687)	(34,809)	(31,319)
Financing activities	(34,624)	(44,360)	1,043	33,185	(44,756)
Other segment information					
Capital expenditures	14,263	9,883	678		24,824
Depreciation and amortization	12,202	15,477	934		28,613
Interest on loans and related items - net of capitalized interest	1,393	4,288	33		5,714
Interest income	1,186	296	21		1,503
Provisions	563	709	54		1,326
Asset impairment			657		657
As at and for the year ended December 31, 2006 (As restated Note 2)					
Income					
Service revenues	78,383	49,175	6,337	(8,920)	124,975
Non-service revenues	2,457	79	553	(122)	2,967
Other income	706	5,006	128	(100)	5,740
Segment income	81,546	54,260	7,018	(9,142)	133,682
Result					
Income before income tax	36,854	5,726	(349)		42,231
Provision for (benefit from) income tax	6,478	449	(37)		6,890
Net income (loss) for the year	30,376	5,277	(312)		35,341
Assets and liabilities					
Segment assets	86,905	184,095	17,431	(66,197)	222,234
Deferred income tax assets	4,991	14,834	59		19,884
Total assets	91,896	198,929	17,490	(66,197)	242,118
Segment liabilities	48,751	91,874	3,396	(6,372)	137,649
Deferred income tax liabilities	6		396		402
Total liabilities	48,757	91,874	3,792	(6,372)	138,051
Cash flows					
Net cash provided by (used in):					
Operating activities	38,053	29,720	203	(237)	67,739
Investing activities	(15,855)	7,051	(11,708)	(15,278)	(35,790)
Financing activities	(31,206)	(40,559)	11,822	15,515	(44,428)

Other segment information					
Capital expenditures	10,490	9,052	1,132		20,674
Depreciation and amortization	10,752	20,406	711		31,869
Interest on loans and related items - net of capitalized interest	1,386	5,953	20		7,359
Interest income	1,197	441	16		1,654
Provisions	829	92	64		985
Asset impairment	1,391		428		1,819
As at and for the year ended December 31, 2005 (As restated Note 2)					
Income					
Service revenues	74,677	49,706	2,953	(6,232)	121,104
Non-service revenues	3,036	41	351	(116)	3,312
Equity share in net income of associates			7		7
Other income	1,445	286	127	(195)	1,663
Segment income	79,158	50,033	3,438	(6,543)	126,086
Result					
Income before income tax	38,464	136	57		38,657
Provision for (benefit from) income tax	4,800	(657)	12		4,155
Net income for the year	33,664	793	45		34,502
Assets and liabilities					
Segment assets	97,643	185,140	4,355	(52,398)	234,740
Deferred income tax assets	2,022	13,674	5		15,701
Total assets	99,665	198,814	4,360	(52,398)	250,441
Segment liabilities	57,527	125,343	3,598	(9,968)	176,500
Deferred income tax liabilities	44		6		50
Total liabilities	57,571	125,343	3,604	(9,968)	176,550
Cash flows					
Net cash provided by (used in):					
Operating activities	46,546	28,865	215	587	76,213
Investing activities	(5,937)	20,052	(734)	(25,075)	(11,694)
Financing activities	(35,034)	(50,845)	597	24,488	(60,794)
Other segment information					
Capital expenditures	8,827	5,543	620		14,990
Depreciation and amortization	10,156	20,251	415		30,822
Interest on loans and related items - net of capitalized interest	1,714	8,639	24		10,377
Interest income	1,135	385	15		1,535
Provisions	575	2,297	54		2,926
Asset impairment			26		26

5. Income and Expenses

Non-service Revenues

	2007	2006	2005
	(Unaudited)	(Audited)	
	(in million pesos)		
Sale of computers, cellular handsets and cellular SIM-packs	**2,335**	2,536	3,077
Point-product sales	**145**	431	235
	2,480	2,967	3,312

Compensation and Employee Benefits

	2007	2006	2005
	(Unaudited)	(Audited)	
	(in million pesos)		
Salaries and other employee benefits	**16,645**	13,761	11,688
Pension (Notes 3 and 23)	**1,773**	1,003	776
Incentive plans (Notes 3 and 23)	**1,448**	3,150	1,214
Manpower rightsizing program, or MRP	**604**	445	458
	20,470	18,359	14,136

Over the past years, PLDT has been implementing its MRP in line with its continuing effort to reduce the cost base of its fixed line business. The total MRP cost charged to operations for the years ended December 31, 2007, 2006 and 2005 amounted to Php604 million, Php445 million and Php458 million, respectively. The decision to implement the MRP was anchored on the challenges being faced by the fixed line business as significant changes in technology, increasing competition, and shifting market preferences to cellular use have reshaped the future of the fixed line business. The MRP was implemented in compliance with Labor Code of the Philippines and all other relevant labor laws and regulations in the Philippines.

Cost of Sales

2007	2006	2005
(Unaudited)	(Audited)	
(in million pesos)		

Cost of computers, cellular handsets and cellular SIM-packs sold	**4,430**	4,847	5,958
Cost of point-product sales	**254**	476	300
Cost of satellite air time and terminal units (Notes 22 and 24)	**160**	199	243
	4,844	5,522	6,501

Professional and Other Contracted Services

	2007	2006	2005
	(Unaudited)	(Audited)	
	(in million pesos)		
Technical and consultancy fees (Note 22)	**3,625**	1,909	1,419
Contracted services	**1,641**	948	470
Legal and audit fees	**203**	219	508
Others	**119**	73	67
	5,588	3,149	2,464

Financing Costs

	2007	2006	2005
	(Unaudited)	(Audited)	
	(in million pesos)		
Interest on loans and related items on financial instruments measured at amortized cost (Notes 18 and 26)	**6,256**	7,908	10,881
Accretion on financial liabilities net (Notes 2, 18 and 26)	**1,161**	3,314	2,882
Hedge costs (Note 26)	**1,125**	1,446	1,234
Financing charges (Note 26)	**196**	51	202
Dividends on preferred stock subject to mandatory redemption (Notes 7 and 18)	**17**	130	251
(Gain) loss on derivative financial instruments net (Notes 2 and 26)	**(81)**	405	628
Capitalized interest (Notes 2 and 8)	**(542)**	(549)	(504)
Interest income on loans and receivables and asset-held-to-maturity	**(1,503)**	(1,654)	(1,535)
Foreign exchange gains net of capitalized foreign exchange gains (Notes 18 and 26)	**(2,976)**	(1,967)	(4,906)
	3,653	9,084	9,133

Interest expense for short-term borrowings for the years ended December 31, 2007, 2006 and 2005 amounted to Php32 million, Php10 million and Php2 million, respectively.

Provisions

	2007	2006	2005
	(Unaudited)	(Audited)	
	(in million pesos)		
Assessments (Notes 22, 24 and 25)	**666**	38	196
Doubtful accounts (Note 14)	**417**	736	2,251
Write-down of inventories to net realizable values (Note 15)	**243**	211	479
	1,326	985	2,926

Asset Impairment

	2007	2006	2005
	(Unaudited)	(Audited)	
	(in million pesos)		
Goodwill and intangible assets (Note 11)	**1,249**	50	
Investments in associates (Note 9)	**(616)**	4	
Property, plant and equipment (Note 8)		1,402	26
Notes receivable		346	
Other assets	**24**	17	
	657	1,819	26

6. Income Tax

The net components of deferred income tax assets (liabilities) recognized in the consolidated balance sheets are as follows:

	2007	2006
	(Unaudited)	
		(As restated Note 2)
	(in million pesos)	
Net assets	**13,754**	19,884
Net liabilities	**(2,155)**	(402)

The components of the consolidated net deferred income tax assets and liabilities are as follows:

	2007 (Unaudited)	2006 (As restated Note 2)
	(in million pesos)	
Net assets:		
Net operating loss carryover, or NOLCO	**6,055**	4,983
Accumulated provision for doubtful accounts	**3,428**	4,746
Derivative financial instruments	**2,308**	1,878
Unearned revenues	**1,789**	2,301
Pension and other employee benefits	**1,096**	2,568
Unamortized past service pension costs	**985**	871
Asset impairment	**824**	5,432
MCIT	**641**	982
Unrealized foreign exchange losses	**544**	2,632
Provisions for unrealized assets	**494**	732
Accumulated write-down of inventories to net realizable values	**224**	321
Leases	**160**	304
Executive stock option plan	**33**	106
Intangible assets and fair value adjustments on assets acquired	**2**	(391)
Excess of fair value over cost of investment properties	**(80)**	(77)
Preferred stock subject to mandatory redemption	**(100)**	(109)
Capitalized taxes and duties net of amortization	**(376)**	(446)
Capitalized foreign exchange differential	**(783)**	(988)
Undepreciated capitalized interest charges	**(3,572)**	(4,607)
Gain on debt exchange and debt restructuring transactions		(1,650)
Asset retirement obligation net of capitalized asset		191
Others	**82**	105
	13,754	19,884
Net liabilities:		
Unearned revenues	**825**	(1)
Provisions for unrealizable assets	**348**	
Asset retirement obligation net of capitalized asset	**332**	
Accumulated provision for doubtful accounts	**304**	
Asset impairment	**277**	
Pension and other employee benefits	**217**	
Leases	**42**	
Unamortized past service pension costs	**7**	
Excess of fair value over cost of investment properties	**(60)**	(38)
Derivative financial instruments	**(164)**	
Interest charges capitalized	**(718)**	
Intangible assets and fair value adjustments on assets acquired	**(736)**	(357)
Gain on debt exchange and debt restructuring transactions	**(1,228)**	
Unrealized foreign exchange gains	**(1,613)**	(6)
Others	**12**	
	(2,155)	(402)

Provision for (benefit from) corporate income tax consists of:

	2007	2006	2005
		(As restated	
	(Unaudited)	Note 2)	
	(in million pesos)		
Current	**10,767**	10,035	8,583
Deferred	**6,512**	(3,145)	(4,428)
	17,279	6,890	4,155

The reconciliation between the provision for income tax at the applicable statutory tax rates and the actual provision for corporate income tax is as follows:

	2007	2006	2005
		(As restated	
	(Unaudited)	Note 2)	
	(in million pesos)		
Provision for corporate income tax at the applicable statutory tax rates	**18,640**	14,781	12,563
Tax effects of:			
Non-deductible expenses	**333**	751	204
Equity share in net loss (income) of investees	**3**	18	(2)
(Income) loss not subject to tax	**(420)**	(2,375)	283
Income subject to final tax	**(509)**	(550)	(496)
Loss (income) subject to lower tax rate	**(768)**	(203)	6
Net movement in deferred income tax		(5,532)	(8,403)
Actual provision for corporate income tax	**17,279**	6,890	4,155

Mabuhay Satellite and SubicTel are registered as Subic Bay Freeport Enterprises while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 7227, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, Mabuhay Satellite, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in R.A. 7227.

On December 22, 2000, the Philippine Board of Investments, or BOI, approved ePLDT s registration as a new information technology, or IT, service firm in the field of services related to its internet data center on a pioneer status. As such, ePLDT enjoys, among other incentives, a six-year income tax holiday, or ITH, starting January 2001.

On January 3, 2007, the BOI approved ePLDT s application for pioneer status for its new data center facility as a new IT service firm in the field of services related to Internet Data Center. ePLDT was granted a six-year ITH for its new data center facility from January 2007 or actual start of operations, whichever comes first. ePLDT started commercial operations of its new data center facility in February 2007.

On August 13, 2007, ePLDT received approval from the Philippine Economic Zone Authority, or PEZA, to declare the Vitro Data Center Building as a PEZA-registered IT Building EcoZone facility enabling prospective clients to apply for fiscal incentives should they qualify as a PEZA-registered entity. However, ePLDT as a developer/operator of Vitro Data Center Building shall not be entitled to PEZA incentives under R.A. No. 7916, or R.A. 7916, otherwise known as The Special Economic Zone Act of 1995 , as amended by Republic Act No. 8748, or R.A. 8748.

Parlance is registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under this registration, Parlance is entitled to certain tax incentives, including an ITH for six years starting in June 2002. Parlance is required to comply with specific terms and conditions stated in its BOI registration.

Vocativ is registered with the PEZA as an Ecozone Export Enterprise to develop and operate a call center business that serves overseas clients by providing customer relationship management services. As a registered enterprise, Vocativ is entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and an ITH for four years from start of commercial operations. After the ITH period, Vocativ is liable for a final tax, in lieu of all taxes, of 5% gross income less allowable deductions as defined under R.A. 7916. The 5% final tax must be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the treasurer s office of the municipality or city where the enterprise is located.

On December 5, 2005, Vocativ received approval from PEZA for the adjustment of the start of its commercial operations, effectively extending the ITH to end of March 2006. On June 30, 2006, PEZA approved Vocativ s ITH extension for another year until April 2007. On September 3, 2007, PEZA again approved Vocativ s ITH extension for another year until March 2008.

Ventus and two of its call center projects are registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under their registrations, Ventus, Ventus Iloilo and Pasig call center projects are entitled to certain tax incentives such as an ITH for six years starting March 2005 for Ventus and Ventus Iloilo call center and August 2006 for Ventus Pasig call center. In relation to this, they are required to comply with specific terms and conditions stated in their BOI registration.

iPlus Intelligent Network, Inc., or iPlus, is a wholly-owned subsidiary of ePLDT and is registered with the BOI as a new IT service firm in the field of application service provider on a pioneer status. Under such registration, iPlus is entitled to a six-year ITH incentive from the actual start of commercial operations until January 1, 2009.

mySecureSign, Inc., or mSSI, is a wholly-owned subsidiary of ePLDT and is registered with the BOI as a new IT service firm in the field of services related to public key infrastructure on a pioneer status. Under such registration, mSSI enjoys, among other incentives, a six-year ITH from August 1, 2001.

Digital Paradise is registered with the BOI as a new IT service firm in the field of community access on a non-pioneer status. Under the provisions of the registration, Digital Paradise s sales generated from its own community access activity and franchise fees are entitled to an ITH for a period of four years beginning December 2002. In December 2006, the BOI approved Digital Paradise s application for a status upgrade from non-pioneer to pioneer, accordingly extending the ITH period for another two years starting January 2007.

Level Up! was originally registered with the BOI as a new IT service firm in the field of application service provider on a non-pioneer status. Under such registration, Level Up! is entitled to certain tax incentives, which includes a four-year ITH from January 2003 and a tax credit for taxes on duties on materials used in export products for ten years starting January 2003. In April 2004, the BOI approved Level Up! s request for upgrading its status from non-pioneer to pioneer in connection with its IT service activity in the field of application service provider for entertainment and educational project. Accordingly, the ITH period was extended from four years to six years to expire on January 2009.

In September 2006, PEZA approved SPi s application for registration as an ecozone information technology enterprise to provide IT enabled services with emphasis on the creation of electronic discovery, presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and implementation of healthcare documentation solutions. As a registered enterprise, SPi is entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and an ITH for four years. After the ITH period, SPi is liable for a final tax, in lieu of all taxes. The final tax is computed at 5% of gross income less allowable deductions as defined under R.A. 7916 and will be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the National Government; and (b) 2% which will be directly remitted by the business establishments to the treasurer s office of the municipality or city where the enterprise is located.

Wolfpac is registered with the BOI as a new operator of service provider applications. Under the terms of its registration, it is entitled to certain tax and non-tax incentives which include, among other things, an ITH for four years starting February 2004.

On November 29, 2007, the BOI approved Wolfpac s application for a one year extension of ITH incentive on the basis that the capital equipment to labor ratio did not exceed US$10 million as provided under Article 39 of Executive Order, or E.O. 226. The approved bonus year shall be for the period February 13, 2008 to February 12, 2009.

SBI has three registered activities with the BOI on a pioneer status, namely: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new information technology service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of these registrations, SBI is entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years until February 2007, August 2007 and July 2011, respectively.

Income derived from non-registered activities with the BOI is subject to the normal income tax rate enacted as at the balance sheet date.

Consolidated tax incentives that we availed for the years ended December 31, 2007, 2006 and 2005 amounted to Php766 million, Php142 million and Php235 million, respectively.

On May 24, 2005, the president of the Philippines signed into law Republic Act No. 9337, or R.A. 9337, amending certain sections of the National Internal Revenue Code, which took effect on November 1, 2005. R.A. 9337, among others, introduced the following changes:

a. The regular corporate income tax rate for domestic corporations and resident/non-resident foreign corporations increased from 32% to 35% effective November 1, 2005 and will be reduced to 30% effective January 1, 2009;

b. The VAT rate increased from 10% to 12% effective February 1, 2006; and

c. The input VAT on capital goods should be spread evenly over the estimated useful life or sixty months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds Php1 million.

Our deferred income tax assets have been recorded to the extent that such deferred income tax assets are expected to be utilized against sufficient future taxable profit. We had unrecognized deferred income tax assets of Php1,122 million and Php299 million largely pertaining to MCIT and asset impairment as at December 31, 2007 and 2006, respectively.

Our consolidated unutilized NOLCO as at December 31, 2007 is as follows:

Year Incurred	Year Expiring	(Unaudited) (in million pesos)

2005	2008	11,383
2006	2009	5,424
2007	2010	931
		17,738
Tax benefit from NOLCO		6,060
Unrecognized deferred income tax assets from NOLCO as at December 31, 2007		(5)
		6,055

Our consolidated excess MCIT as at December 31, 2007 is as follows:

Year Incurred	**Year Expiring**	**(Unaudited) (in million pesos)**
2005	2008	484