PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
April 09, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR 12(G) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2007

OR

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

OR

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

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive offices)

Atty. Ma. Lourdes C. Rausa-Chan, telephone: +(632) 816-8556; lrchan@pldt.com.ph; Ramon Cojuangco Bldg., Makati Avenue, Makati City, Philippines

(Name, telephone, e-mail and/or facsimile number and address of Company contact person)

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

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

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

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

None

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

10.500% Notes due 2009
11.375% Notes due 2012
8.350% Notes due 2017

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

As at December 31, 2007:
188,740,519 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share
441,650,297 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos Per Share

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

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

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

-

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

-

Large Accelerated Filer [√] Accelerated Filer [ ] Non-Accelerated Filer [ ]

-

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP [ ]

International Financial Reporting Standards as issued by the International Accounting Standards Board [√]

Other [ ]

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [ ]

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

TABLE OF CONTENTS

-

CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

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

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

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

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine pesos or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US$ are to the lawful currency of the United States, all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan, and all references to Euro or are to the lawful currency of the European Union. Unless otherwise indicated, translations of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php41.411 to US$1.00 on December 31, 2007. On April 3, 2007, the volume weighted average exchange rate quoted was Php41.552 to US$1.00.

In this report, each reference to:

- ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, our wholly-owned subsidiary;
- AIL means ACeS International Limited, a 36.99%-owned associate of ACeS Philippines;
- Airborne Access means Airborne Access Corporation, a 51%-owned subsidiary of ePLDT;
- BCC means Bonifacio Communications Corporation, our 75%-owned subsidiary;

- BSP means Bangko Sentral ng Pilipinas;

- ClarkTel means PLDT Clark Telecom, Inc., our wholly-owned subsidiary;

- CyMed means CyMed, Inc., a wholly-owned subsidiary of SPi;

- Digital Paradise means Digital Paradise, Inc., a 75%-owned subsidiary of ePLDT;

- DSL means digital subscriber line;

- ePLDT means ePLDT, Inc., our wholly-owned subsidiary;

- ePLDT Ventus means the umbrella brand name for ePLDT s customer interaction services, including Ventus, Vocativ and Parlance;

- First Pacific means First Pacific Company Limited;

- First Pacific Group means First Pacific and its Philippine and other affiliates;

- GAAP means generally accepted accounting principles;

- GSM means global system for mobile communications;

- I-Contacts means I-Contacts Corporation, a wholly-owned subsidiary of Smart;

- IFRS means International Financial Reporting Standards as issued by the International Accounting Standards Board;

- Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;

- Level Up! means Level Up!, Inc., a 60%-owned subsidiary of ePLDT;

- Mabuhay Satellite means Mabuhay Satellite Corporation, our 67%-owned subsidiary;

- Maratel means PLDT-Maratel, Inc., our 97.5%-owned subsidiary;

- netGames means netGames, Inc., an 80%-owned subsidiary of ePLDT;

- NTC means the National Telecommunications Commission of the Philippines;

- NTT means Nippon Telegraph and Telephone Corporation;

- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of Nippon Telegraph and Telephone Corporation;

- NTT DoCoMo means NTT DoCoMo, Inc., a majority-owned and publicly traded subsidiary of Nippon Telegraph and Telephone Corporation;

- NTTC-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;

- PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;

- Parlance means Parlance Systems, Inc., a wholly-owned subsidiary of ePLDT;

- PFRS means Philippine Financial Reporting Standards;

- Piltel means Pilipino Telephone Corporation, a 92.1%-owned subsidiary of Smart;

- PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;

- PLDT Global means PLDT Global Corporation, our wholly-owned subsidiary;

- SEC means the Securities and Exchange Commission;

- SIM means subscriber identification module;

- SMS means short messaging service;

- Smart means Smart Communications, Inc., our wholly-owned subsidiary;

- SBI means Smart Broadband, Inc., our wireless broadband provider and a wholly-owned subsidiary of Smart;

- SPi means SPi Technologies, Inc., a wholly-owned subsidiary of ePLDT;

- SPi Group means SPi and its subsidiaries;

- SubicTel means PLDT Subic Telecommunications Company, Inc., our wholly-owned subsidiary;

- VAS means value-added service;
- VAT means value-added tax;
- Ventus means ePLDT Ventus, Inc., a wholly-owned subsidiary of ePLDT;
- Vocativ means Vocativ Systems, Inc., a wholly-owned subsidiary of ePLDT;
- WAP means wireless application protocol;
- W-CDMA means wireless-code division multiple access; and
- Wolfpac means Wolfpac Mobile, Inc., our wireless content operator and a wholly-owned subsidiary of Smart.

FORWARD-LOOKING STATEMENTS

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

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

You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements as of and for the years ended December 31, 2007 and 2006 included in this Annual Report on Form 20-F have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). We adopted IFRS effective as of and for the fiscal year ended December 31, 2007 by applying IFRS 1: First-Time Adoption of International Reporting Standards. Our consolidated financial statements as at and for the year ended December 31, 2006 were originally prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and were restated in accordance with IFRS for comparative purposes only. An explanation of how the transition to IFRS from U.S. GAAP has affected our reported financial position, financial performance and cash flows is provided in *Note 2 Summary of Significant Accounting Policies and Practices First-time Adoption and Transition to IFRS* in the accompanying audited consolidated financial statements in Item 18.

In accordance with rule amendments adopted by the U.S. Securities Exchange Commission, or U.S. SEC, which became effective on March 4, 2008, we do not provide a reconciliation to U.S. GAAP. Furthermore, pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted in this Annual Report on Form 20-F financial statements and financial information for the year ended December 31, 2005.

The consolidated financial statements included in our Annual Reports on Form 20-F filed with the U.S. SEC in respect of the years ended December 31, 2006, 2005, 2004, 2003 and 2002 were prepared in conformity with U.S. GAAP and, prior to that, in conformity with PFRS.

IFRS differs in certain significant aspects from U.S. GAAP and PFRS. As a result, our financial information presented under IFRS is not directly comparable to our financial information presented in our previous Annual Reports on Form 20-F filed with the U.S. SEC.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The selected consolidated financial information below as of and for the years ended December 31, 2007 and 2006 should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes, included elsewhere in this Annual Report. As disclosed above under Presentation of Financial Information , our consolidated financial statements as at, and for the years ended, December 31, 2007 and 2006 have been prepared and presented in conformity with IFRS.

The selected consolidated financial information below as at and for the years ended December 31, 2005, 2004, and 2003 is based on financial statements prepared and presented in conformity with U.S. GAAP and should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements, including the notes, included in our previous Annual Report for the fiscal year ended December 31, 2006 filed with the U.S. SEC on June 27, 2007.

Therefore, data for 2005, 2004 and 2003 are not comparable with data for 2007 and 2006 and are presented separately.

Amounts in conformity with IFRS:

	Consolidated Financial Data Years Ended December 31,		
	2007(1)	**2007**	**2006**
	(in millions, except earnings per common share, ratio of earnings to fixed charges and dividends declared per common share)		

Statements of Operating Data:			
Total Revenues	US$3,667	Php151,862	Php139,724
Service revenues	3,271	135,476	124,987
Non-service revenues	78	3,226	2,520
Foreign exchange gains net	193	7,990	4,823
Interest Income	36	1,503	1,654
Other Income	89	3,667	5,740
Expenses	2,265	93,781	101,475
Net income	948	39,274	32,581
Earnings per common share			
Basic	4.97	205.84	173.10
Diluted	4.95	204.88	173.01
Balance Sheets Data:			
Cash and cash equivalents	421	17,447	16,870
Total assets	5,799	240,158	241,904
Total long-term debt - net of current portion	1,289	53,372	63,769
Total debt(2)	1,464	60,640	80,154
Total liabilities(3)	3,086	127,813	139,051
Total stockholders equity	2,713	112,345	102,853
Other Data:			
Depreciation and amortization	691	28,613	31,869
Ratio of earnings to fixed charges(4)	8.4x	8.4x	5.1x
Net cash provided by operating activities	1,869	77,418	69,211
Net cash used in investing activities	756	31,319	35,790
Net cash used in financing activities	1,082	44,819	45,900
Dividends declared to common shareholders	683	28,299	14,459
Dividends declared per common share	3.62	150.00	78.00

Amounts in conformity with U.S. GAAP:

	Consolidated Financial Data Years Ended December 31,		
	2005	**2004**	**2003**
	(in millions, except operating income per share, earnings per common share, ratio of earnings to fixed charges and dividends declared per common share)		
Statements of Operating Data:			
Revenues and Other Income	Php123,335	Php121,173	Php111,200
Service revenues	120,348	114,904	100,486
Non-service revenues	2,987	6,269	10,714
Expenses	74,821	72,634	77,821
Operating income per share			
Basic	263.81	266.73	179.04
Diluted	255.15	252.20	165.37

Net income	40,603	28,101	11,045
Earnings per common share			
Basic	217.84	146.32	47.20
Diluted	211.93	145.30	45.72
Balance Sheets Data:			
Cash and cash equivalents	30,059	27,321	19,372
Total assets	269,709	279,041	276,362
Total long-term debt - net of current portion	93,516	131,377	160,464
Total debt(2)	112,313	159,455	186,407
Total liabilities(3)	176,980	215,145	236,630
Total stockholders equity	79,595	48,079	24,746
Other Data:			
Depreciation and amortization	27,855	20,098	21,812
Ratio of earnings to fixed charges(4)	5.9x	4.1x	2.0x
Net cash provided by operating activities	66,280	63,107	42,582
Net cash used in investing activities	13,080	24,764	20,021
Net cash used in financing activities	49,470	30,325	14,135
Dividends declared to common shareholders	9,624		
Dividends declared per common share	56.00		

---

(1) We maintain our accounts in Philippine peso. For convenience, the peso financial information as at and for the year ended December 31, 2007, has been translated into U.S. dollars at the exchange rate of Php41.411 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2007. This translation should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.

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

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

(4) For purposes of this ratio, Earnings consist of: (a) pre-tax income from continuing operations before adjustment for minority interest in consolidated subsidiaries or income or loss from equity investees, (b) fixed charges, (c) amortization of capitalized interest, (d) distributed income of equity investees, and (e) share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges; less the sum of the following: (1) capitalized interest, (2) preference security dividend requirements of consolidated subsidiaries, and (3) the minority interest in pre-tax income of subsidiaries that have not incurred fixed charges

Fixed charges consist of interest expensed and capitalized interest, amortized premiums, discounts and capitalized expenses related to indebtedness, an estimate of interest within rental expense, and preference security dividend requirements of consolidated subsidiaries.

Capital Stock

The following table summarizes PLDT s capital stock outstanding as at December 31, 2007 and 2006:

	December 31,	
	2007	**2006**
	(in millions)	
Serial Preferred Stock		
10% Cumulative Convertible Preferred Stocks		
A to EE	Php4,056.5	Php4,063.8
Convertible Preferred Stocks Subject to Mandatory Redemption		
Series V(1)	0.3	0.5
Series VI(1)	6.8	8.8
Cumulative Non-convertible Redeemable Preferred Stock		
Series IV	360.0	360.0
	Php4,423.6	Php4,433.1
Common Stock	Php943.7	Php942.2

____

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

Dividends Declared

The table sets forth dividend declarations on shares of PLDT s common stock in 2007 and 2006:

	Date			Amount	
Earnings	**Approved**	**Record**	**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

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements in the declaration and payment of dividends as discussed in *Note 17 Equity* and *Note 18 Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until received in the form of dividends from such subsidiaries (see *Note 17 Equity* to the accompanying audited consolidated financial statements in Item 18). Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, which acts as the dividend-disbursing agent, converts the peso dividends into U.S. dollars at the prevailing exchange rates, and remits the dollar proceeds abroad, net of applicable withholding tax.

Dividends Paid

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

	In Philippine Peso	In U.S. Dollars

2005	56.00	1.142
2006	70.00	1.590
2007	140.00	3.381
April 20	50.00	1.051
September 24 (Regular)	60.00	1.328
September 24 (Special)	40.00	0.885
2008 (through April 3, 2008)		

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

Exchange Rates

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

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

	Year Ended December 31,			
	Period End	**Average(1)**	**High(2)**	**Low(3)**
2003	Php55.586	Php54.215	Php52.021	Php55.767
2004	56.341	56.044	55.142	56.443
2005	53.062	55.085	53.062	56.321
2006	49.045	51.332	49.045	53.587
2007	41.411	46.184	41.142	49.156
2008 (through April 3, 2008)	41.552	40.984	40.360	41.868

Source: Philippine Dealing System Reference Rate

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

(2) Highest exchange rate for the period.

(3) Lowest exchange rate for the period.

	Period End	Month Average(1)	High(2)	Low(3)
2007				
September	44.974	46.047	44.974	46.940
October	43.730	44.321	43.730	45.041
November	42.759	43.167	42.759	43.761
December	41.411	41.668	41.142	42.362
2008				
January	40.626	40.902	40.524	41.514
February	40.457	40.663	40.360	40.954
March (through April 3, 2008)	41.552	41.587	41.528	41.681

Source: Philippine Dealing System Reference Rate

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

(2) Highest exchange rate for the month.

(3) Lowest exchange rate for the month.

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the exchange rate as at December 31, 2007 of Php41.411 to US$1.00. You should not assume that such peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at April 3, 2008, the exchange rate quoted through the Philippine Dealing System was Php41.552 to US$1.00.

Risk Factors

Risks Relating to Us

We face competition from well-established telecommunications operators and may face competition from new entrants that may adversely affect our business, results of operations, financial condition and prospects

The Philippine government has liberalized the Philippine telecommunications industry and opened up the Philippine telecommunications market to new entrants. Including the PLDT Group, there are nine major local exchange carriers, seven international gateway facility providers and five cellular service providers in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we are facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments. There can be no assurance that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not lead our cellular and fixed line subscribers to switch to other operators or lead us to increase our marketing expenditures or reduce our rates, resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry in the Philippines is based primarily on factors such as network coverage, quality of service and price. Recently, competition has increased as operators sought to develop and maintain market share and to attract new subscribers. Our principal cellular competitors, Globe Telecom, Inc., or Globe, and Digital Telecommunications Philippines, Inc., or Digitel, have introduced aggressive marketing campaigns and promotions. In addition, the government may allocate additional frequencies and award additional cellular telecommunications licenses in the future which could lead to increased competition.

As a result of the competitive environment, Smart has not increased its cellular rates since November 1998. Moreover, the level of competition requires Smart to continuously innovate its products and to conduct promotions, which may affect its cellular revenues and revenue growth. For example, in order to test the market demand for fixed rate or bucket plans for voice and text services and in response to similar types of promotions launched by its competitors, Smart launched promotions pursuant to which Smart and *Talk N Tex*t prepaid subscribers had the option to avail themselves of unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messages at a fixed rate.

There can be no assurance that incurring additional marketing expenses for these promotions and responding to rate pressures and the potential loss of customers will not have a material adverse effect on our financial performance.

The cellular telecommunications industry may not continue to grow

The majority of our total revenues are currently derived from cellular services. As a result, we depend on the continued development and growth of the cellular telecommunications industry. The cellular penetration rate in the Philippines is estimated to have reached over 60%. As such, our cellular business is expected to grow at a slower rate as the penetration rate increases, an increasing number of subscribers own multiple SIM cards and Smart moves further into the lower-income segments of the market. The growth of the cellular communications market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer preferences and amount of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services may harm our business.

Rapid changes in telecommunications technology may adversely affect the economics of our existing businesses and the value of our assets, increase our required capital expenditures and create new competition

The telecommunications sector has been characterized recently by rapid technological changes. There can be no assurance that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade our facilities. Furthermore, the NTC has issued to Smart and our competitors licenses covering 3G cellular services, and we have incurred significant expenses in the rollout of these services. We are also rolling out a wireless broadband network and continuing to upgrade to a next generation, all-IP network in order to expand our capability to provide broadband services. These projects require and will continue to require significant capital expenditures over the next few years.

Our future success will depend, in part, on our ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis. We may be unable to obtain new technologies on a timely basis or on satisfactory terms or implement them in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to our business model, which could negatively impact our existing businesses and could necessitate new investments. In addition, new products and services may be expensive to develop and may result in increased competition. Such strategic initiatives and technological developments could require us to incur significant additional capital expenditures. There can be no assurance that we would be able to adopt and successfully implement new technologies. In addition, there can be no assurance on how emerging and future technological changes will affect our operations or the competitiveness of our services.

Our financial position could be materially and adversely affected if the Philippine peso significantly fluctuates against the U.S. dollar

Substantially all of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, but a significant portion of our revenues is denominated in Philippine pesos. As at December 31, 2007, 88% of our total consolidated indebtedness was foreign currency-denominated, of which approximately 45% was unhedged.

A depreciation of the Philippine peso against the U.S. dollar increases the amount of our debt obligations and operating and interest expenses in peso terms. In the event that the Philippine peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations and other means to offset the resulting increase in our obligations in peso terms. These changes could cause us not to be in compliance with the financial covenants imposed by our lenders under certain loan agreements and other indebtedness. Further, fluctuations in the Philippine peso value and of interest rates impact the mark-to-market gains/losses of certain of our financial debt instruments which were designated as non-hedged items.

On the other hand, approximately 38% of PLDT Group s consolidated service revenues are either denominated in U.S. dollars or is linked to the U.S. dollar. In this respect, an appreciation of the Philippine peso against the U.S. dollar reduces our revenues in peso terms and reduces our cash flow from operations.

The Philippine peso has been subject to significant fluctuations in recent years. From 2003 to 2005, the Philippine peso generally depreciated from a high of Php52.021 on May 8, 2003 to a low of Php56.443 on October 14, 2004. In 2005, the peso fluctuated significantly from a low of Php56.321 on July 8 to a high of Php53.062 on December 29, 2005. While the peso appreciated in 2006 and continued to appreciate in 2007, there can be no assurance that the peso will not depreciate and be subject to significant fluctuations going forward due to a range of factors, including:

- political and economic developments affecting the Philippines;
- global economic trends;
- the volatility of regional currencies, particularly the Japanese yen;
- any interest rate increases by the Federal Reserve Bank of the United States;
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and
- foreign exchange traders including banks covering their short U.S. dollar positions.

Our results of operations have been, and may continue to be, adversely affected by competition in, and the emergence of new services which may put additional pressure on, our traditional international and national long distance services

The international long distance business has historically been one of our major sources of revenue. However, due to competition and the steep decline in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, revenues generated from our international long distance business have overall declined in recent years.

We anticipate that revenues from international long distance and international data services, including our services, will continue to decline in the future, due primarily to:

- increased competition from other domestic and international telecommunications providers;

- advances in technology;

- alternative providers offering internet telephony, also known as Voice over Internet Protocol, or VoIP, and broadband capacity; and

- unauthorized traffic termination and bypass routings by international simple resale operators.

The continued increase in cellular penetration in the Philippines and the prevalence of SMS has negatively impacted our national long distance business in recent years. There can be no assurance that we will be able to generate new revenue streams that may fully offset the declines in our traditional fixed line long distance businesses or that these declines will not materially and adversely affect our financial performance.

Net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries have been our predominant source of foreign currency revenues. However, in U.S. dollar terms, these payments have been declining in recent years. A continued decline in our foreign currency revenues could increase our exposure to risks from possible future declines in the value of the Philippine peso against the U.S. dollar. We cannot assure you that we will be able to achieve adequate increases in our other revenues to make up for any adverse impact of a further decline in our net settlement payments.

We may not be successful in our acquisitions of and investments in other companies and businesses, and may therefore be unable to implement fully our business strategy

As part of our growth strategy, we may, from time to time, make acquisitions and investments in companies or businesses. The success of our acquisitions and investments depends on a number of factors, including:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of the PLDT Group; and
- our ability to successfully integrate the acquired company or business with our existing businesses.

Any of our contemplated acquisitions and investments may not be consummated due to reasons or factors beyond our control. Even if any contemplated acquisitions and investments are consummated, we may not be able to realize any or all of the anticipated benefits of such acquisitions and investments. Moreover, if we are unsuccessful in our contemplated acquisitions and investments, we may not be able to implement fully our business strategy to maintain or grow certain of our businesses.

Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our indebtedness could impair our ability to fulfill our financial obligations, service our other debt and carry out new financings or pay dividends

As at December 31, 2007, we had consolidated total indebtedness of approximately Php60,640 million (US$1,464 million), and a consolidated ratio of debt to equity (total debt on a consolidated basis divided by total equity) of 0.54x. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios calculated on the basis of PFRS on a consolidated and non-consolidated basis, limit our ability to incur indebtedness, make investments and pay dividends. For a description of some of these covenants, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Financing Activities Debt Covenants.

Our indebtedness and the requirements and limitations imposed by our debt covenants could have important consequences. For example, they could:

- require us to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements; and

- limit the availability and amount of dividend payments to our common shareholders.

The principal factors that can negatively affect our ability to comply with the financial ratios and other financial tests under our debt instruments are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments or other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries and increases in our interest expenses. Since approximately 88% of our total consolidated debts were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the peso.

We have maintained compliance with all of our financial ratios and covenants, as measured under PFRS, under our loan agreements and other debt instruments. However, if negative factors adversely affect our financial ratios, we may be unable to maintain compliance with these ratios and covenants or be unable to incur new debt. Inability to comply with the financial ratios and covenants or raise new financing could result in a declaration of default and acceleration of some or all of our indebtedness. The terms of some of our debt instruments have no minimum amount for cross-default.

If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of some or all of our indebtedness.

In addition, we may have difficulty meeting debt payment obligations if we do not continue to receive cash dividends from Smart.

Creditors of our subsidiaries will have superior claims to our subsidiaries cash flow and assets

A growing portion of our total revenues and cash flow from operations is derived from our subsidiaries, particularly Smart. Smart and some of our other subsidiaries have significant internal cash requirements for debt service, capital expenditures and expenses and so may be financially unable to pay any dividends to PLDT. Although Smart has been making dividend payments to PLDT since December 2002, we cannot assure you that PLDT will continue to receive dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of our subsidiaries will have prior claims to our subsidiaries assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor on loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed senior to the indebtedness we hold.

Our businesses require substantial capital investment, which we may not be able to finance

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart s projects, networks and services, require substantial ongoing capital investment. Our consolidated capital expenditures in 2007 and 2006 totaled Php24,824 million and Php20,674 million, respectively. Our 2008 budget for consolidated capital expenditures is approximately Php25 billion, of which approximately Php9 billion is budgeted to be spent by PLDT and approximately Php15 billion is budgeted to be spent by Smart; the balance represents the budgeted capital spending of our other subsidiaries. PLDT s capital spending is intended principally to finance the continued build-out and upgrade of its data and internet protocol infrastructures and for its fixed line data services and the maintenance of its network. Smart s capital spending is focused on expanding and upgrading its transmission network facilities to meet increased demand for cellular and broadband services.

Future strategic initiatives could require us to incur significant additional capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, which have not yet been fully arranged. There can be no assurance that financing for new projects will be available on terms acceptable to us or at all. If we cannot complete our development programs and other capital projects, our growth, results of operations and financial condition could be materially and adversely affected.

Our businesses depend on the reliability of our network infrastructure, which is subject to physical, technological and other risks

We depend to a significant degree on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include:

- physical damage;
- power loss;
- capacity limitation;
- cable theft;
- software defects; and
- breaches of security by computer viruses, break-ins or otherwise.

The occurrence of any of these risks could have a material and adverse effect on our ability to provide services to customers. While we are undertaking initiatives to prevent and/or mitigate the occurrence of said risks, including the preparation of a disaster recovery plan that aims to allow restoration of service at the soonest possible time from occurrence of an incident. There can be no assurance that these risks will not occur or that our initiatives will be effective should such risks occur.

A significant number of PLDT s shares are held by three separate shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT

The First Pacific Group has beneficial ownership of approximately 26.17% in PLDT s outstanding common stock as at February 29, 2008. This is the largest block of PLDT s common stock that is directly or indirectly under common ownership.

NTT Communications, which owned 14% of PLDT s common stock as at December 31, 2005, transferred on March 14, 2006, approximately 12.6 million shares of PLDT s common stock, representing approximately 7% of the then outstanding shares of PLDT s common stock, to NTT DoCoMo pursuant to a stock sale and purchase agreement dated January 31, 2006. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT common stock and, together with NTT Communications, beneficially owns 20.86% of PLDT s common stock as at February 29, 2008. NTT Communications is a wholly-owned subsidiary, and NTT DoCoMo a majority-owned subsidiary of NTT. In connection with the above acquisition by NTT DoCoMo of shares of PLDT from NTT Communications, First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, NTT DoCoMo and PLDT entered into a Cooperation Agreement, dated January 31, 2006, or the Cooperation Agreement, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999 and the Shareholders Agreement dated March 24, 2000 were extended to NTT DoCoMo. See Item 7. Major Shareholders and Related Party Transactions for further details regarding the shareholdings of NTT Communications and NTT DoCoMo in PLDT. As a result of the Cooperation Agreement, NTT Communications and NTT DoCoMo, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

- capital expenditures in excess of US$50 million;

- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US$25 million in the case of all investments to any existing investees and US$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis;

- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US$10 million in the case of an existing investee and US$50 million in the case of a new investee;

- issuance of common stock or stock that is convertible into common stock;

- new business activities other than those we currently engage in; and

- merger or consolidation.

Moreover, as a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties, NTT Communications and/or NTT DoCoMo are able to influence our actions and corporate governance, including:

- elections of PLDT s directors; and

- approval of major corporate actions, which require the vote of common stockholders.

Additionally, pursuant to amendments effected by the Cooperation Agreement to the Strategic Agreement and the Shareholders Agreement, upon NTT Communcations and NTT DoCoMo and their respective subsidiaries owning in the aggregate 20% or more of PLDT s shares of common stock and for as long as they continue to own in the aggregate at least 17.5% of PLDT s shares of common stock then outstanding, NTT DoCoMo has additional rights under the Strategic Agreement and Shareholders Agreement, including that:

- NTT DoCoMo is entitled to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart;

- PLDT must consult NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees of any proposal of investment in an entity that would primarily engage in a business that would be in direct competition or substantially the same business opportunities, customer base, products or services with business carried on by NTT DoCoMo, or which NTT DoCoMo has announced publicly an intention to carry on;

- PLDT must procure that Smart does not cease to carry on its business, dispose of all of its assets, issue common shares, merge or consolidate, or effect winding up or liquidation without PLDT first consulting with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or Smart, or certain of its committees; and

• PLDT must first consult with NTT DoCoMo no later than 30 days prior to the first submission to the board of PLDT or certain of its committees for the approval of any transfer by any member of the PLDT Group of Smart common capital stock to any person who is not a member of the PLDT Group.

Pursuant to public filings made with the U.S. SEC by NTT Communications and NTT DoCoMo, as at February 29, 2008, NTT Communications and NTT DoCoMo together beneficially owned 20.86% of the outstanding shares of PLDT s common stock.

The FP Parties and/or NTT Communications and/or NTT DoCoMo may exercise their respective influence over these decisions and transactions in a manner that could be contrary to your interests.

If a major shareholder sells its interest in PLDT, the transaction may result in an event of default under certain circumstances

If First Pacific Group or NTT Communications sell all or a portion of their equity interest in PLDT, in certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase its outstanding debt under its US$250 million 11.375% notes due 2012. As at December 31, 2007, Php10,353 million in principal amount of PLDT s indebtedness is directly subject to a change in major shareholding or offer to purchase requirement. In such event, if PLDT fails to complete an offer to purchase the affected debts, all of its debt could become immediately due and payable as a result of various cross-default provisions.

The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares

In order to diversify the ownership base of public utilities, the Philippine Public Telecommunications Policy Act, or R.A. 7925, requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares by the later of (i) the fifth anniversary of the date the law became effective; and (ii) the fifth anniversary of the date of the entity s commencement of commercial operations. As Smart has not conducted a public offering of its shares, the Philippine Congress may revoke the franchise of Smart for its failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925.

Smart maintains the position that it has not violated the provision in its franchise to make a public offering of its shares within a certain period, since it believes such provision is merely directory. Further, the policy underlying the requirement for telecommunications entities to conduct a public offering should be deemed of having been achieved when PLDT acquired a 100% equity interest in Smart in 2000, given the fact that PLDT was then and continues to be a publicly listed company. In September 2004, Senate Bill No. 1675 was filed seeking to declare that a telecommunication entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. This bill is currently pending in Congress. However, there can be no assurance that such bill will be enacted or that Philippine Congress will not revoke the franchise of Smart or the Office of Solicitor General of the Philippines will not initiate a quo warranto proceeding against Smart for the revocation of its franchise for failure to comply with the provision under R.A. 7925 on the public offering of shares.

Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and certificates of public convenience and necessity, or CPCNs, which are granted by the NTC and expire between now and 2028. Some of PLDT s CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC s decisions on these extensions. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart s franchise is due to expire on March 27, 2017, 25 years after the date on which its current franchise was granted. Smart operates international private leased circuits under a provisional authority, which expired on November 6, 2006. Smart applied for an extension of this provisional authority or for the issuance of a CPCN prior to its expiration. The NTC has not yet acted on the motion. Because PLDT and Smart filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, there can be no assurance that the NTC will grant these extensions. If a CPCN has not been issued, the NTC may permit an operator to provide services pursuant to a provisional authority. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned. However, there can be no assurance that our franchises, CPCNs and provisional authorities will be renewed. For a description of our licenses, see Item 4. Information on the Company Licenses and Regulation.

The NTC also regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. There can be no assurance that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or reduction in our total revenues or profitability. In addition, the NTC could adopt changes to the regulations governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers that could have a material and adverse effect on our results of operations.

The PLDT Group is also subject to a number of national and local taxes. 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:

- 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.

- The VAT rate increased from 10% to 12% effective February 1, 2006.

- 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 one million pesos.

There can be no assurance that PLDT Group will not be subject to new and/or additional taxes and that PLDT Group will be able to impose additional charges or fees to compensate for the imposition of such taxes. Furthermore, while the National Internal Revenue Code provides that our regular income tax rate will be reduced to 30% effective January 1, 2009, there can be no assurance whether or when such reduction in the regular corporate income tax rate will be implemented.

There are also various bills pending in the Philippine Congress which propose to impose a franchise tax on telecommunication companies and to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G. We cannot assure that we would be able to impose additional charges or fees to compensate for the imposition of such taxes.

The NTC may implement proposed changes in existing regulations and introduce new regulations which may result in increased competition and may have negative implications for our revenues and profitability

On June 16, 2000, the NTC issued Memorandum Circular No. 13-6-2000 proposing that cellular operators, including Smart and Piltel, be required, among other things:

- to bill their subscribers for cellular calls on a six-second pulse basis instead of the current per minute basis;

- not to bill calls directed to recorded voice messages; and

- to extend the expiration date of prepaid cards from the current two months to two years.

Along with the other Philippine cellular operators, Smart filed a complaint for the nullification of this memorandum circular before the regional trial court of Quezon City and sought for the issuance of a preliminary injunction while proceedings are ongoing. The regional trial court issued the preliminary injunction, which restrained the implementation of the memorandum circular. The complaint of the Philippine cellular operators is being heard by the regional trial court of Quezon City.

In December 2005, the NTC issued a consultative document on the development of competition policy framework for the information communications sector. The consultative paper contains eleven questions which cover the following key areas:

- a review of market trends deemed to impinge on current and future state of competition in the sector;
- an exploration of major policies that may change the balance of market power, hence the nature and degree of competition;
- an assessment of the quality of current regulation, identifying major handicaps of the NTC; and
- a discussion of the urgent tasks for the NTC to effectively govern a dynamic and complex industry.

The NTC invited public comment from industry stakeholders and other interested parties in relation to the issues raised in the paper. On January 31, 2006, we submitted a comprehensive response to the consultative paper. On August 24, 2006, the NTC issued another consultative document specifically focusing on its proposal to impose asymmetric regulations on carriers with significant market power, or SMP, including a discussion on its proposed roadmap for implementing such SMP obligations. On October 23, 2006, we submitted our response to the second consultative paper to the NTC.

In formulating both our responses, we took into account both industry interests and the broader context of our nation s economic development, drawing on the experience in other countries. We believe that the basis for the need for regulatory reform is unclear and the envisioned SMP regime is inappropriate for the Philippines, as the market is highly competitive and well-functioning. In addition, the imposition of SMP and its attendant obligations would discourage capital investments in a sector on which the Philippine economy is highly dependent. We have therefore proposed that the NTC explore its full range of options available on a cost-benefit basis, taking into consideration the specific local context of the Philippine marketplace.

There can be no assurance that the NTC will not impose changes to the current regulatory framework which may lead to increased competition. Any such changes may have an adverse effect on our business, results of operations and prospects.

If we are unable to install and maintain telecommunications facilities and equipment in a timely manner, we may not be able to keep up with our principal competitors, which may have negative implications for our revenue and profitability

Our business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment, which are being undertaken. The installation and maintenance of these facilities and equipment are subject to risks and uncertainties relating to:

- shortages of equipment, materials and labor;

- work stoppages and labor disputes;

- interruptions resulting from inclement weather and other natural disasters;

- unforeseen engineering, environmental and geological problems; and

- unanticipated cost increases.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent us from properly maintaining the equipment used in our networks, and could have a material and adverse effect on our results of operations and financial condition.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could adversely impact investor confidence and the market price of our common shares and ADSs

Effective internal controls over financial reporting are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we are unable to provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our reputation and results of operations could be harmed.

We are required to comply with various Philippine and U.S. laws and regulations on internal controls. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, we have been required to include a report by our management on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by our management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must express an opinion on our internal control over financial reporting based on their audit.

Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including through a failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on the market prices of our common shares and ADSs.

Risks Relating to the Philippines

PLDT s business may be affected by political or social or economic instability in the Philippines

The Philippines is subject to political, social and economic volatility that, directly or indirectly, may have a material adverse impact on our ability to sustain our business and growth.

For example, on May 10, 2004, the Philippines held a presidential election which resulted in a victory by the incumbent President Gloria Macapagal-Arroyo who successfully retained her post. Shortly after the elections, allegations of irregularities in the presidential elections, such as stolen ballots, vote buying and attempts to improperly influence the vote count, intensified and led to impeachment complaints against President Arroyo, which were subsequently dismissed.

Additionally, the Philippines have experienced various street protests and violent civil unrest, including coup d etat attempts against the administration of President Arroyo. For example, recent such events include the storming by armed rebel soldiers on November 29, 2007 of a luxury hotel in Makati City, Philippines, occupying part of the hotel and demanding that President Arroyo step down, and the declaration by President Arroyo of a state of emergency from February 24, 2006 to March 3, 2006.

Furthermore, the Philippine economy has experienced periods of slow growth, high inflation and significant devaluation of the peso. The Philippine government is also facing a fiscal deficit that the government is aiming to eliminate by 2008 by implementing a number of economic reforms.

The fiscal deficit position of the Philippine government and the ongoing political uncertainty have resulted in increased concerns about the political and economic stability of the country. There can be no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for telecommunications or other companies.

If foreign exchange controls were to be imposed, our ability to meet our foreign currency payment obligations could be adversely affected

Approval from or registration with the BSP for the issuance and guarantee of foreign currency-denominated borrowings is not required in order to make our foreign currency payment obligations legally valid and binding. However, receiving this approval and registration will enable a borrower to access the banking system to obtain foreign currency to service its debt obligations rather than using other sources of foreign currency, for example, foreign currency revenue streams.

The Philippine government has, in the past, instituted restrictions on the conversion of the peso into foreign currency and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;
- require licensing of foreign exchange transactions; or
- require the delivery of foreign exchange to the BSP or its designee banks.

There can be no assurance that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

The occurrence of natural catastrophes may materially disrupt our operations

The Philippines has experienced a number of major natural catastrophes over the years including typhoons, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. The earthquake that hit Taiwan in December 26, 2006 severed cable systems linking the Philippines to other Asian and American countries, causing major slowdown of voice and non-voice data traffic exchange. There can be no assurance that the insurance coverage PLDT maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

Item 4. Information on the Company

Overview

We are the leading national telecommunications service provider in the Philippines. Through our three principal business groups wireless, fixed line, and information and communications technology we offer a wide range of telecommunications services to approximately 32 million subscribers in the Philippines across the nation's most extensive fiber optic backbone and fixed line, cellular and satellite networks.

We are the leading fixed line service provider in the Philippines with approximately 59% of the total reported fixed line subscribers nationwide as at December 31, 2007. Smart, our wholly-owned subsidiary, is the leading cellular service provider in the country, with approximately 37% of total reported cellular subscribers as at December 31, 2007. Piltel, Smart s 92.1%-owned subsidiary, had approximately 18% of total reported cellular subscribers as at December 31, 2007. We have interests in the information and communications technology sectors, including the operation of our *Vitro*TM data center, customer interaction services, formerly referred to as call center business, and knowledge processing solutions business, formerly referred to as business process outsourcing.

Our common shares are listed and traded on the Philippine Stock Exchange, or PSE, and our American Depositary Shares, or ADSs, evidenced by American Depositary Receipts, or ADRs, are listed and traded on the New York Stock Exchange in the United States.

We had a market capitalization of approximately Php547,841 million (US$13,541 million) as at February 29, 2008, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2007, we had total revenues of Php151,862 million (US$3,667 million).

Our principal executive offices are located at the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines and our telephone number is +(632) 816-8534. Our website address is *www.pldt.com.ph*. The contents of our website are not a part of this annual report.

Historical Background and Development

PLDT 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. In 1967, effective control of PLDT was sold by the General Telephone and Electronics Corporation, then 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, the First Pacific Group acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through its wholly-owned subsidiary NTT Communications Capital (U.K.) Limited, or NTTC-UK, became PLDT s strategic partner with approximately 14% 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. On March 14, 2006, NTT DoCoMo acquired from NTT Communications approximately 7% of PLDT s then outstanding common shares held by NTT Communications with NTT Communications retaining ownership of approximately 7% of PLDT s common shares. Since March 14, 2006, NTT DoCoMo has made additional purchases of shares of PLDT s common stock and together with NTT Communications beneficially owned 20.86% of the outstanding shares of PLDT s common stock as at February 29, 2008. 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 PTIC. This additional investment in PTIC, a shareholder of PLDT, represents an attributable interest of approximately 6.4% of the then issued common shares of PLDT and thereby raised the First Pacific Group s beneficial ownership to approximately 28% of PLDT s shares of common stock as at that date. First Pacific Group had beneficial ownership of approximately 26.17% in PLDT s outstanding common stock as at February 29, 2008. See Item 7. Major Shareholders and Related Party Transactions for further discussion.

PLDT's original franchise was granted in 1928 and was last amended in 1991, extending its effectiveness until 2028 and broadening PLDT s franchise to permit PLDT to provide virtually every type of telecommunications service. PLDT s franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, cellular, wired or wireless telecommunications system, fiber optics, multi-channel transmission distribution systems and their value-added services such as but not limited to transmission of voice, data, facsimile, control signals, audio and video, information services bureau and all other telecommunications systems technologies, as are at present available or can be made available through technical advances or innovations in the future. See Item 8. Financial Information Legal Proceedings Quo Warranto Action for information regarding legal proceedings initiated by the Solicitor General with respect to PLDT's franchise.

Our consolidated capital expenditures amounted to Php24,824 million and Php20,674 million in 2007 and 2006, respectively. Of these amounts, Php9,912 million and Php8,902 million were attributable to PLDT in 2007 and 2006, respectively, while Php14,179 million and Php10,506 million were spent by Smart in 2007 and 2006, respectively. The remaining balances were spent by our other subsidiaries, principally ePLDT and its subsidiaries.

Organization

PLDT Group includes the following significant subsidiaries as at February 29, 2008:

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership Direct	Indirect
Wireless				
Smart	Philippines	Cellular mobile services	100.0	
Smart Braodband 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	Customer interaction 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	Promotion of 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, cusomter interaction service and IT-related services	100.0	
SPi Technologies, Inc., or SPi, and subsidiaries, or SPi Group	Philippines	Knowledge processing solutions		100.0
ePLDT Ventus, Inc., or Ventus	Philippines	Customer interaction services		100.0
Vocativ Systems, Inc., or Vocativ	Philippines	Customer interaction services		100.0
Parlance Systems, Inc., or Parlance	Philippines	Customer interaction 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	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

Level Up!, SPi and CyMed were all acquired in 2006 and their financial results have been included in our consolidated financial statements since February, July and August 2006, respectively. On April 12, 2007, SPi acquired a 100% equity interest in Springfield Service Corporation, or Springfield, a company engaged in the medical billing and revenue cycle management market in the United States. The financial results of Springfield have been included in our 2007 consolidated financial statements since April 2007. See *Note 11 Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements in Item 18 for further discussion regarding these and other acquisitions.

Wireless

We provide cellular and wireless broadband, satellite and other services through our wireless business, which contributed about 95% and 5% of our wireless service revenues, respectively, in 2007. The rapid growth in the cellular market has resulted in a change in our revenue composition and sources of our revenue growth. Starting with 2003, cellular service has become our major revenue source surpassing fixed line revenues. Cellular data services, which include all text messaging and text-related services ranging from ordinary text to value-added services, contributed significantly to our revenue increase. Our total wireless revenues accounted for 62% and 60% of our total consolidated revenues for the years ended December 31, 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006, cellular service revenues accounted for 88% and 90%, respectively, of our total wireless revenues

We provide cellular services (including handset sales), through Smart and Piltel. Smart is the leading cellular service provider in the Philippines, with 20,339,204 subscribers as at December 31, 2007, representing a market share of approximately 37%. Piltel, a reseller of Smart's GSM service with its own branding, had 9,701,826 subscribers as at December 31, 2007, representing an estimated market share of 18%. In 2007, the combined number of Smart's and Piltel's subscribers increased by 5,865,646, or 24%, to 30,041,030 primarily due to multiple SIM card ownership, in which subscribers avail of our services in addition to having subscriber arrangements with other wireless operators, and our continued expansion in the lower income segment of the Philippine wireless market, which overall resulted in a decrease in our average revenue per user, or ARPU. As at December 31, 2007, cellular penetration in the Philippines reached over 60%, or over 18 times the country's fixed line penetration, although the existence of subscribers owning multiple SIM cards has likely overstated this penetration rate to a certain extent.

Smart's and Piltel's cellular subscriber gains were predominantly attributable to their respective prepaid services. Approximately 99% of Smart s and all of Piltel s cellular subscribers as at December 31, 2007 were prepaid service subscribers. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market. The growth in our prepaid service has enabled us to increase and broaden our subscriber base rapidly while controlling credit risk and reducing billing and administrative costs on a per-subscriber basis.

Our cellular subscriber growth has also been driven by text messaging. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Text messaging contributed significantly to Smart's cellular data service revenue growth in 2007, generating revenues of Php41,265 million, an increase of Php6,616 million, or 19%, over 2006.

Smart's Nokia-provided cellular network is the most extensive in the Philippines, covering substantially all of Metro Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz base transceiver stations, or BTS, in dense urban areas while its 900 MHz BTS can be much more economically deployed in potentially high growth, but less densely populated provincial areas. We have rolled out a 3G network based on a W-CDMA technology and currently upgrading our wireless broadband facilities. With 7,825 GSM base stations as at the end of December 2007, Smart s cellular network covers approximately 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

Fixed Line

We are the leading provider in the Philippines of fixed line telecommunications services throughout the country. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had 1,724,702 fixed line subscribers as at December 31, 2007. Total revenues from our fixed line services accounted for 37% and 41% of our total revenues for the years ended December 31, 2007 and 2006, respectively.

Our 6,400-kilometer long domestic fiber optic network, or DFON, is supported by an extensive digital microwave backbone. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country's most extensive connections to international networks through three international gateway switching exchanges, satellite systems and various regional submarine cable systems in which we have interests. We are currently upgrading our fixed line facilities to NGN as well as expanding our DSL broadband facilities.

Information and Communications Technology

Through our wholly-owned subsidiary, ePLDT, we provide broad-based integrated information and communications technology, or ICT, services focusing on infrastructure and solutions for internet applications, internet protocol-based solutions and multimedia content delivery. ePLDT's principal activities are the operation of an internet data center under the brand name *Vitro* , customer interaction services, knowledge processing solutions, and internet and online gaming business. Total revenues from our ICT services accounted for 7% and 5% of our total revenues for the years ended December 31, 2007 and 2006, respectively.

Strengths

We believe our business is characterized by the following competitive strengths:

• *Recognized Brands*. PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for 80 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. Piltel's *Talk N Text* brand, which is provided using Smart s network, has also gained significant recognition.

• *Leading Market Shares*. With approximately 32 million fixed line and cellular subscribers as at December 31, 2007, we have the leading market positions in both the fixed line and cellular markets in the Philippines.

• *Diversified Revenue Sources*. As a result of the continued growth of cellular service in the country, approximately 62% of our total consolidated revenues in 2007 were derived from our wireless business segment. Fixed line revenues, which represented 37% and 41% of our total revenues in 2007 and 2006, respectively, have declined over the past years as pressures on traditional fixed line voice revenues, resulting from decreases in our local exchange, international long distance and national long distance services. We continue to identify and develop new revenue sources from our cellular, fixed line and ICT businesses.

• *Advanced Integrated Network*. With one of the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We are enhancing the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. In addition, we continue our roll out of 3G and wireless broadband and our upgrade to NGN in order to increase broadband subscribers, and expand our data/broadband capabilities.

• *Innovative Products and Services*. We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Money*, *Smart Load* and *Pasa Load. Smart Load* is an over-the-air electronic loading facility designed to make reloading of air time credits more convenient for, and accessible to consumers. *Pasa Load* (the term pasa means transfer in the vernacular), a derivative service of *Smart Load* that allows load transfers to other *Smart Buddy* and *Talk N Text* subscribers.

• *Strong Strategic Relationship*. We have important strategic relationships with First Pacific, NTT DoCoMo and NTT Communications. The technological support, international experience and management expertise made available to us through these strategic relationships enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

Strategy

The key elements of our business strategy are:

• *Build on our leading positions in the fixed line and wireless businesses*. We plan to build on our position as the leading provider of fixed line service in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost. We plan to build on our position as the leading wireless service provider in the Philippines by continuing to introduce new products and services to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services. We are currently upgrading our fixed line facilities to NGN, and have rolled out a 3G network based on a W-CDMA technology and are expanding our DSL and wireless broadband facilities. Our operating target is to continue growth in profitability by increasing our revenues while controlling our costs.

• *Capitalize on our strength as an integrated provider of telecommunications services*. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services, and by developing convergent products that feature the combined benefits of voice and data, fixed line, wireless and ICT services utilizing our network and business platforms. We are also lowering our costs by integrating the operations of our different businesses.

• *Strengthen our leading position in the data and broadband market*. Leveraging on the inherent strength of our fixed line and wireless businesses, we are committed to further develop, enhance and lead our fastest growing business segment broadband, data and other network services. Consistent with our strategy of introducing innovative products and services using advanced technology, we have launched various products and services that address different market needs.

• *Maintain a strong financial position and improve shareholder returns.* In recent years, we have significantly improved our financial position by utilizing our cash flows principally for debt reduction. As the cash flows generated by our businesses have increased and our leverage ratios have improved, we were able to restore the payment of cash dividends to our common shareholders beginning 2005. Our debt decreased to US$1.6 billion as at December 31, 2007 and we paid dividends on common shares aggregating Php28,167 million in 2007. As a result of our strong cash flows and reduced debt levels, we have increased our regular cash dividend payout ratio to 70% of our 2007 earnings per share from 60% in 2006 and 40% in 2005. Further to our regular cash dividend payments and after having determined that we have capacity to pay additional returns to shareholders, we paid special cash dividends which effectively increased our dividend pay-out ratio to close to 100% of our 2007 earnings per share and 85% of our 2006 earnings per share. We expect that a greater proportion of our free cash flows in succeeding years will be utilized for the payment of cash dividends to common shareholders and investments in new growth areas while continuing to maintain a healthy balance sheet position. As part of our growth strategy, we made and may continue to make acquisitions and investments in companies or businesses. We will continue to consider value-accretive investments in related businesses such as those in the global outsourcing and off-shoring industry.

Business

Wireless

We provide cellular, wireless broadband, satellite and other services through our wireless business segment.

Cellular Service

Overview

Our cellular business, which we provide through Smart and Piltel to over 30 million subscribers, approximately 99% of whom are prepaid subscribers, is focused on providing wireless voice communications, wireless data communications (primarily through text messaging) and a variety of other value-added services, which includes (a) *Mobile Banking* (banking services delivered over the cellular network); (b) specialized content such as ringtones, logos, caller ringback tunes; (c) *Smart Money*; (d) international roaming; and (e) games and other VAS developed on Smart s platform. Smart services approximately ten million subscribers of Piltel on its GSM network through a facilities service agreement with Piltel, under the brand name *Talk N Text*.

The following table summarizes key measures of Smart s and Piltel s cellular business as at and for the years ended December 31, 2007, 2006 and 2005:

	Years Ended December 31,		
	2007	**2006**	**2005**(2)
Systemwide cellular subscriber base	30,041,030	24,175,384	20,408,621
Smart	20,339,204	17,201,005	15,424,196
Prepaid	19,997,324	16,882,442	15,144,118
Postpaid	341,880	318,563	280,078
Piltel(1)	9,701,826	6,974,379	4,984,425
Growth rate of cellular subscribers	24%	18%	6%
Smart	18%	12%	6%
Piltel(1)	39%	40%	8%
Cellular revenues (in millions)	Php85,134	Php77,627	
Service			
Cellular services	82,334	75,617	
Non-service			
Cellular handset sales	2,800	2,010	
Percentage of cellular revenues to total service revenues	59%	58%	
Percentage of cellular revenues to total wireless service revenues	98%	99%	

-

(1) Represents Talk N Text, a prepaid service provided by Piltel using Smart s network. Piltel s revenue is net of service fees payable to Smart for using Smart s network. Piltel does not offer postpaid service.

(2) Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted revenue data for 2005. Please see Presentation of Financial Information above for further details.

Service Plans. Smart markets nationwide cellular communications services under the brand names *Smart Buddy, Smart Gold* and *Smart Infinity. Smart Buddy* is a prepaid service while *Smart Gold* and *Smart Infinity* 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 also 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-network 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 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.

Voice Services. Cellular voice services comprise all voice traffic as well as voice value-added services such as voice mail and international roaming. Voice services remains a significant contributor to wireless revenues, generating a total of Php36,105 million, or 44%, and Php35,221 million, or 47%, of cellular service revenues in 2007 and 2006, respectively. Local calls continue to dominate outbound traffic with 67% of all outbound minutes originating from our cellular service. In 2007, traffic volumes from local calls totaled 3,728 million minutes compared to 3,362 million minutes in 2006. National long distance traffic volumes for 2007 totaled 70 million minutes compared to 73 million minutes in 2006. Outbound international long distance remained at 2% of total outbound traffic with 201 million minutes and 165 million minutes generated in 2007 and 2006, respectively. The ratio of inbound-to-outbound international long distance minutes was 11.7:1 for 2007, compared to 12.5:1 in 2006.

Data Services. Cellular revenues from data services include all text messaging-related services and other data value-added services. The Philippines cellular market is one of the most text messaging-intensive markets in the world, totaling more than a billion text messages per day. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. Text messaging also utilizes less network capacity than voice, thereby increasing network efficiency.

Text messaging has been one of the key drivers for our cellular subscriber growth. Strong volume growth in text messaging contributed significantly to Smart's cellular revenue growth in 2007, generating revenues of Php41,265 million, an increase of Php6,616 million, or 19%, over 2006. In 2007, Smart and Piltel's text messaging systems handled over 25,289 million outbound messages on standard SMS services with another 187,420 million messages generated by the bucket-priced text services. This compares to 32,065 million outbound messages on standard SMS services in 2006 and 203,669 million outbound messages generated through bucket-priced text service. Unlimited SMS services were only made available in March 2005.

We launch from time to time various promotions to stimulate usage and subscriber growth. For example, in 2005, Smart launched a series of promotions to test the market demand for fixed rate or bucket plans for voice and text. In 2006, Smart introduced low-denomination text packages which were further refined in 2007 as Smart focused on further segmenting its market by offering sector-specific, value-driven packages. As a result, Smart continued to successfully defend its market leadership through innovative voice and text packages that drive activations, boost usage and strengthen brand equity.

The success of text messaging is a strong indicator of future data usage potential in this market. In 2007, approximately 54% of Smart s cellular revenues were derived from data usage, compared to 51% in 2006.

Smart also offers the following value-added cellular services:

- *Mobile Banking*, launched in collaboration with various banks, allows subscribers to execute banking transactions such as balance inquiries and transfers over their mobile telephones;

- *Smart Money,* launched in conjunction with MasterCard, enables subscribers to pay for their purchases by transferring money from their bank accounts to their Smart Money cards as well as reload their prepaid cards electronically; and

- *Smart Padala*, one of the many innovative initiatives from our *Smart Money* platform, is the first cash remittance service through text and is faster and cheaper than traditional remittance arrangements. It was launched initially as an international remittance service for overseas Filipino workers but is now available for domestic remittances as well.

Consistent with Smart s objective to develop new businesses, Smart introduced in 2006 a fixed wireless broadband service under the brand *SmartBro* to complement PLDT s DSL in areas that are currently not covered by the fixed line network. *SmartBro* is rapidly increasing network coverage in order to retain first mover advantage in areas with limited or no fixed line or broadband coverage. *SmartBro* is also pioneering a shared access model in order to propagate broadband and address affordability barriers.

Due to the high level of text messaging service usage, we believe that the Philippine market is well suited for text-based informational and e-commerce services. Our current approach is to continue maximizing our GSM, or 2G, services while upgrading our network to 3G evolution technology. On December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked highest by the NTC in garnering a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result of the perfect ranking, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service.

Rates and Discounts

Our current policy is to recognize a prepaid subscriber as active only when the subscriber activates and uses the SIM card and reloads it at least once during the month of initial activation or in the immediately succeeding month. 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.

Smart Buddy and *Talk N Text* Call and Text prepaid cards are sold in denominations of Php300, Php500 and Php1,000, which include 33, 83 and 250 free text messages, respectively. We also recently introduced a Php100 denomination that contains Php100 worth of air time with a validity period of 10 days. While the stored value of a prepaid card remains valid for a period from the time a subscriber activates the card, as we launch from time to time promotions with shorter validity periods. The introduction of our over-the-air electronic loading facility *Smart Load* in 2003 made reloading of air time credits more convenient and accessible for consumers. *Smart Load s* over-the-air reloads have evolved to respond to market needs and now come in denominations of Php15, Php30, Php50, Php60, Php115, Php200, Php300 and Php500 with corresponding expiration periods.

Smart Load was followed by *Pasa Load*, a derivative service, allowing prepaid subscribers to transfer even smaller denominations to other prepaid subscribers. Our prepaid subscribers are charged between Php5.50 per minute and Php6.50 per minute for calls within our wireless network and calls terminating to other cellular or fixed line networks. Voice tariffs on our various prepaid voice packages range from a low of Php5.50 for four 15-second on-network calls to Php20 for three 3-minute on-network calls, valid for one day.

We offer both flat rate, or regular, and consumable postpaid plans with monthly service fees ranging from Php500 to Php3,500. These plans are available with varying amounts of free air time and text messages and different rates beyond the free minutes and text messages, depending on the monthly service fee. Monthly service fees for flat rate, or regular, plans are applicable only to local calls and text messages and for consumable plans to all voice calls, text messages (both local and international) and value-added services.

Smart is permitted to adjust its cellular air time and national direct dial rates according to changes in the peso-to-U.S. dollar exchange rate. Under the authorization granted to Smart by the NTC, Smart is permitted to increase and is required to decrease its air time and national direct dial rates by 1% for every Php0.25 change in the exchange rate relative to a base rate of Php24.726 to US$1.00. However, Smart has not implemented any foreign currency adjustments to its rates since November 4, 1998 because of the concern that increased rates may result in decreased usage or switching to other cellular providers by its subscribers.

All Smart subscribers pay an international direct dialing rate of US$0.40 per minute. This rate applies to 201 destinations, including the United States, Hong Kong, Japan, Singapore, the United Kingdom and the United Arab Emirates. Smart charges US$0.98 per minute for 27 other destinations and US$2.18 per minute for another ten destinations.

Smart also has in place various promotions to stimulate international usage. In June 2006, *Smart IDD Libre Text Abroad* was launched wherein subscribers earned one free international text message for every minute of IDD calling. In October 2006, this was replaced by *International Budget Text* packages. These packages, which have limited duration and varying number of included messages, enable subscribers to send international text to pre-registered recipients of the subscriber s choice on supported overseas carriers.

We sell our cellular services primarily through a network of independent dealers and distributors that generally have their own retail networks, direct sales forces and sub-dealers. We currently have nine major dealers, two of which are exclusive. These dealers include major distributors of cellular handsets whose main focus are telecommunications outlets. Account managers from our sales force manage the distribution network and regularly update these business partners on upcoming marketing strategies, promotional campaigns and new products introductions. With the introduction of *Smart Load* in May 2003, Smart moved into a new realm of distribution. These over-the-air reloads, which were based on the sachet marketing concept of consumer goods such as shampoo and ketchup, required a distribution network that approximates those of fast-moving consumer goods companies. Starting with just 50,000 outlets when it was launched, *Smart Load* s distribution network now encompasses approximately one million retail agents, 80% of which are micro businesses (e.g., neighborhood stores, individual entrepreneurs, individual roving agents). These micro-retailers must be affiliated with any of Smart s authorized dealers, distributors, sub-dealers or agents. With the prepaid reloading distribution network now extended to corner store and individual retailer levels and minimum reloading denominations as low as Php10, Smart s prepaid service becomes even more affordable and accessible to subscribers.

For prepaid services, we grant discounts to dealers for prepaid phone kits, air time cards and over-the-air reloads sold. Smart and Piltel compensate dealers with Php800 in cash per prepaid phone kit sold. An additional 1% discount based on the suggested retail price is given on cash purchases. Air time cards and over-the-air reloads are sold to distributors at volume discounts determined by the value of the cards purchased by the distributors. Discounts given for air time cards sold range from 8% to 8.4% while discounts on over-the-air reloads range from 2.5% to 5%. Air time cards cannot be returned or refunded and normally expire within six to 12 months after release from the Smart warehouse.

Wireless Broadband, Satellite and Other Services

Overview

We currently provide wireless broadband, satellite and other services through SBI, our wireless broadband provider, Wolfpac, our wireless content operator, Mabuhay Satellite and ACeS Philippines.

SBI

Through SBI, we are engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. As at December 31, 2007, SBI had 301,738 wireless broadband subscribers under the brand name *Smart Bro*. *Smart Bro* aims to strengthen Smart s position in the wireless data segment and complements PLDT s *myDSL* service in areas where the latter is not available.

Wolfpac

Through Wolfpac, we are engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services.

PLDT WeRoam

We also offer *PLDT WeRoam*, or *WeRoam*, a wireless prepaid or postpaid broadband service, running on the PLDT Group s nationwide wireless network (using GPRS, EDGE, WiFi and 3G/HSDPA technologies).

Mabuhay Satellite

Mabuhay Satellite is engaged in the control and operation of the Agila II satellite. Commencing commercial operations in January 1998, Agila II is the Philippines' first communication satellite. Mabuhay Satellite leases satellite space segments in both the C and Ku bands on Agila II. Through Agila II, Mabuhay Satellite also offers internet backbone access, video and data broadcasting, and bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region. In 2007, Mabuhay Satellite generated revenues of Php976 million and posted a net income of Php121 million.

ACeS Philippines

ACeS Philippines currently owns approximately 36.99% of AIL. In 2007, ACeS Philippines generated revenues of Php453 million and posted a net income of Php358 million. AIL aims to develop and implement a satellite-based communications system to provide services to users in the Asia-Pacific region through the Garuda I satellite, or ACeS System and ACeS Service. AIL has entered into interconnection agreements and roaming service agreements with PLDT and other major telecommunications operators that will allow ACeS service subscribers to access GSM terrestrial cellular systems in addition to the ACeS system. Further, AIL has an amended Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. For further discussion regarding the ATPA, please see *Note 22 Related Party Transactions* to the accompanying audited consolidated financial statements in Item 18.

As part of the consolidation process of the PLDT Group s wireless business, ACeS Philippines operations is being managed by Smart. This operational arrangement effectively gives Smart the widest service coverage in the Philippines through the combination of the coverage of ACeS Philippines with Smart s cellular service.

Revenues

Our revenues from wireless broadband, satellite and other services consist of wireless broadband service revenues for SBI, rental payments received for the lease of Mabuhay Satellite s transponders charges for ACeS Philippines satellite information and messaging services, service revenues generated from PLDT Global s subsidiaries, and revenues generated from Wolfpac for wireless data content.

Rates

SBI offers its wireless broadband and data services for residential consumers as well as small and medium-scale enterprises. The wireless broadband service for residential consumers is branded as *Smart Bro* and offers a maximum speed of 384 kbps for Php999 per month. Monthly service fees for corporate data services range from Php999 to Php180,000 depending on the connection speed requirements. The monthly service fee for users of the *Smart Bro Plug-It*, a new service introduced in November 2007, is Php799 and includes 40 hours per month of free internet usage. Users also incur a one-time charge for the *Smart Bro Plug-It* modem of Php1,200.

Wolfpac generates revenues from SMS subscriptions, institutional services and downloadable contents. The subscription price for the SMS subscription and institutional services is pegged at Php2.50 per SMS, while downloadable contents range from Php10.00 to Php30.00.

WeRoam postpaid offers several packages for its wireless broadband service that include unlimited internet access with speeds ranging from 40 kbps to 1.8 Mbps with monthly recurring fees of Php1,000 to Php1,700 depending on the type of plan selected.

WeRoam prepaid offers several packages that include the GPRS/EDGE card and an air time value for three, six and 12 months with monthly subscription fees based on an initial air time value ranging from Php10,860 to Php20,940. Once the initial air time value expires, continued use of the service requires *WeLoad* or reloading of additional air time value with different denominations and expiration periods.

Mabuhay Satellite leases its transponders to third parties at average annual rates of approximately US$0.9 million and approximately US$0.7 million for its C-band and Ku-band transponders, respectively. ACeS service mobile subscribers are charged Php13.84 per minute for local and cell-to-cell calls and for national direct dial services, while residential subscribers are charged peak-hour rates of Php13.00 per minute and off-peak hour rates of Php8.00 per minute for domestic calls regardless of destination. For ACeS system public calling offices, callers are charged Php4.50 and Php7.00 per minute for calls terminating to fixed line and cellular networks, respectively. Rates for international long distance calls depend on the country of termination and range from US$0.35 per minute for frequently called countries to US$0.85 per minute for less frequently called countries.

Fixed Line

We provide local exchange, international long distance, national long distance, data and other network and miscellaneous services under our fixed line business segment.

We offer postpaid and prepaid fixed line services. 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 *TelePwede*, which is funded by e-loads (available at Smart or PLDT e-load retailers). In March 2007, PLDT launched PLDT Landline Plus, a postpaid and prepaid fixed wireless service where subscribers to the service benefit from a text-capable home phone. This service is primarily intended for subscribers in areas where PLDT has no facilities and is expected to increase our fixed line subscriber base.

Local Exchange Service

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT. We also provide local exchange services through our subsidiaries ClarkTel, SubicTel, Maratel and Piltel. Together, these subsidiaries account for approximately 3% of our consolidated fixed line subscribers.

The following table summarizes key measures of our local exchange service segment as at and for the years ended December 31, 2007, 2006 and 2005:

	Years Ended December 31,		
	2007	**2006**	**2005**(2)
Number of fixed line subscribers (at year-end)(1)	1,724,702	1,776,647	1,842,507
Number of fixed line employees (at year-end)	8,080	8,711	9,197
Number of fixed line subscribers per employee	213	204	200
Total local exchange revenues (in millions)	Php16,205	Php16,963	
Local exchange revenues as a percentage of total service revenues	11%	13%	
Local exchange revenues as a percentage of total fixed line service revenues	33%	35%	

____

(1) Previously set forth as number of fixed lines in service, this was restated in 2006 to reflect the effect of the change in parameters used to align with the PLDT Group s policy on subscriber count with the planned use of an integrated billing system for our subscribers.

(2) Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted revenue data for 2005. Please see Presentation of Financial Information above for further details.

Rates

As at December 31, 2007, basic monthly charges for our local exchange service in the Metropolitan Manila area were Php592.63 for a single-party residential line and Php1,234.02 for a single business line. Monthly charges vary according to the type of customer (business or residential) and location, with charges for urban customers generally being higher than those for rural/provincial customers. Regular installation charges amount to Php1,200 for residential customers and Php1,500 for business customers. New products launched on promotion or products bundled on existing services usually waive the installation fee or allow for a minimal installation fee of Php500. Aside from the basic monthly charges, we charge our postpaid subscribers separately for NDD, IDD and calls to mobile phones. Calls to PLDT and other landlines within a local area code are free.

Our prepaid fixed line customers generally do not pay a basic monthly charge and are charged based on usage. Subscribers of *TelePwede*, our upgraded prepaid fixed line service, are charged a monthly fee of Php115 per month to receive incoming calls and are charged per usage for outgoing calls. The *TelePwede* installation fee is Php1,500, including Php127 of preloaded value. The international and national long distance rates we charge to our prepaid fixed line customers are similar to the rates we charge to our postpaid customers. (For a detailed description of these rates, see International Long Distance Service Rates and National Long Distance Service Rates.)

The monthly service fee for our PLDT Landline Plus service is available in load denominations of Php300, Php600 and Php1,000 for residential and business subscribers and includes 150, 600 and 1,000 free local minutes, respectively.

Pursuant to a currency exchange rate adjustment, or CERA, mechanism authorized by the NTC, we are required to 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.

In the first quarter of 2005, House Bill No. 926 was filed and is now pending in the House of Representatives of the Philippines. The proposed bill provides for the cancellation of the currency exchange rate mechanism currently in place. If this bill is passed into law or if the NTC issues guidelines to change the basis of the currency exchange rate mechanism, our ability to generate U.S. dollar linked revenues from our local exchange business could be adversely affected.

International Long Distance Service

Our international long distance service consists of switched voice and packet-based voice and data services that go through our international gateway facilities. We also generate international long distance revenues through access charges paid to us by other Philippine telecommunications carriers for incoming international voice calls that terminate to our local exchange network. Our packet-based voice and data services are transmitted over our existing traditional circuits, VoIP systems and the network of a consortium of dominant carriers in Asia in which PLDT is a member.

The following table shows certain information about our international long distance business as at and for the years ended December 31, 2007, 2006 and 2005:

	Years Ended December 31,		
	2007	**2006**	**2005**(1)

Total call volumes (million minutes)	2,280	2,177	2,266
Inbound call volumes (million minutes)	2,007	1,984	2,117
Outbound call volumes (million minutes)	273	193	149
Inbound-outbound call ratio	7.4:1	10.3:1	14.2:1
Total international long distance service revenues (in millions)	Php8,674	Php9,933	
International long distance service revenues as a percentage of total service revenues	6%	7%	
International long distance service revenues as a percentage of total fixed line service revenues	18%	20%	

____

(1) Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted revenue data for 2005. Please see Presentation of Financial Information above for further details.

International long distance service historically has been a major source of our revenue. However, primarily due to the steep decline in inbound termination and collection rates and intense competition, revenues derived from our international long distance service have been declining.

We have been pursuing a number of initiatives to strengthen our international long distance service business, including by: (i) lowering our inbound termination rates, (ii) identifying and containing unauthorized traffic termination on our network, (iii) being more selective in accepting incoming traffic from second- and third-tier international carriers, and (iv) introducing a number of marketing initiatives, including substantial cuts in international direct dialing rates, innovative pricing packages for large accounts and loyalty programs for some customers. In addition, through PLDT Global, we aggregate inbound call traffic to the Philippines at our points of presence and, using our capacity in submarine cable systems connected to each point of presence, transmit calls to our network. PLDT Global is also enhancing the presence of PLDT in other international markets by offering new products and services such as international prepaid cards, mobile services, SMS transit and other global bandwidth services. We believe these strategies will help us maximize the use of our existing international facilities, and develop alternative sources of revenue.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2007 and 2006(1):

	Net Settlement Years Ended December 31,	
	2007	**2006**
	(in millions)	
United States	US$55	US$54
Saudi Arabia	28	27
United Arab Emirates	18	15
Canada	17	18

Japan	12	12
Italy	10	11
Hong Kong	7	8
Malaysia	7	3
Taiwan	6	4
Others	36	33
Total	US$196	US$185

---

(1) Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted net settlement amounts for 2005. Please see Presentation of Financial Information above for further details.

Rates

Since February 1, 2003, a substantial portion of PLDT s international inbound traffic terminating on its fixed line network is charged approximately US$0.12 per minute.

Rates for outbound international long distance calls are based on type of service, whether operator-assisted or direct-dialed. Our rates are quoted in U.S. dollars and are billed in pesos. The peso amounts are determined at the time of billing. We charge a flat rate of US$0.40 per minute to retail customers for direct-dialed calls, applicable to all call destinations at any time on any day of the week.

We also offer international long distance service through PLDT *Budget Card*, a prepaid call card, which offers low-priced international calling services at IDD call rates ranging from Php3.00 per minute to Php8.00 per minute depending on the destination to more than 90 destinations (excluding the Middle East). In April 2007, we introduced the *Budget Card Middle East Edition* which offers reduced IDD call rates of Php10 per minute and Php15 per minute to different destinations in the Middle East. *Budget Card* and *Budget Card Middle East Edition* are sold in denominations of Php200, Php100 and Php30 and must be consumed within 30 days from first use.

National Long Distance Service

Our national long distance services are provided primarily through PLDT. This service consists of voice services for calls made by our fixed line customers outside of their local service areas within the Philippines and access charges paid to us by other telecommunications carriers for wireless and fixed line calls carried through our backbone network and/or terminating to our fixed line customers.

The following table shows our national long distance service revenues for the years ended December 31, 2007 and 2006 and our national long distance call volumes for the years ended December 31, 2007, 2006 and 2005:

	Years Ended December 31,		
	2007	**2006**	**2005**(1)
Total call volumes (million minutes)	2,183	2,251	2,348
Total national long distance service revenues (in millions)	Php6,338	Php6,921	
National long distance service revenue as a percentage of total service revenues	4%	5%	
National long distance service revenue as a percentage of fixed line service revenues	13%	14%	

---

(1) Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted revenue data for 2005. Please see Presentation of Financial Information above for further details.

Cellular substitution and the widespread availability and growing popularity of alternative, more economical non-voice means of communications, particularly e-mailing and cellular text messaging, have negatively affected our national long distance call volumes. The integration of some of our local exchanges into a single local calling area, as approved by the NTC, has also negatively affected our national long distance call volumes, and consequently, our revenues. Because of this integration, calls between two exchanges located within the same province are no longer considered national long distance calls but are treated as local calls.

Rates

Rates for national long distance calls traditionally were based on type of service, such as whether the call is operator-assisted or direct-dialed. However, in line with its move towards rate simplification, PLDT simplified these rates in recent years to a flat rate of Php5.09 per minute for calls originating and terminating to PLDT fixed line network, and for calls terminating to fixed line networks of other local exchange carriers. Additionally, in recent years, PLDT simplified its rates for calls terminating to cellular subscribers to a uniform rate of Php14.00 per minute.

In addition, PLDT launches from time to time promotions to stimulate fixed line usage.

On January 7, 2006, we implemented a monthly flat service rate of Php50 which permits subscribers to make national long distance calls of unlimited duration for Php10 per call to subscribers of PLDT and, which permits subscribers who registered for this flat rate service on or before February 24, 2006, to also make such calls to subscribers of Smart and Piltel.

We continue to evaluate the present rate structure of our national long distance services from per minute toll charges to flat rates per call for calls of unlimited duration. This is envisioned to make fixed line rates more competitive with VoIP rates and to revitalize interest in fixed line usage. We continue studying various pricing models in respect of the above new rate plan.

PLDT currently has interconnection arrangements with the majority of other local exchange carriers, pursuant to which the originating carrier pays: (1) a hauling charge of Php0.50 per minute for short-haul traffic or Php1.25 per minute for long-haul traffic to the carrier owning the backbone network; and (2) an access charge of Php1.00 per minute to the terminating carrier. PLDT still maintains revenue-sharing arrangements with a few other local exchange carriers, whereby charges are generally apportioned 30% for the originating entity, 40% for the backbone owner and the remaining 30% for the terminating entity. For more information on these interconnection arrangements, see Interconnection Agreements.

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 our data and other network service revenues for the years ended December 31, 2007 and 2006 and our numbers of broadband and narrowband subscribers as at December 31, 2007, 2006 and 2005:

	Years Ended December 31,		
	2007	**2006**	**2005**(1)
Consolidated data and other network service revenues (in millions)	Php15,921	Php13,725	
Number of DSL broadband subscribers	264,291	133,159	88,811
Number of PLDT Vibe narrowband subscribers	230,995	297,250	266,703

____

(1) Pursuant to the transitional relief granted by the U.S. SEC in respect of the first-time adoption of IFRS, we have omitted revenue data for 2005. Please see Presentation of Financial Information above for further details.

Recognizing the growth potential of data and other networking services, including IP-based services, and in light of their importance to our business strategy, we have been putting considerable emphasis on these service segments. These segments registered the highest percentage growth in revenues among our fixed line services in 2007 and continued to grow in the first quarter of 2008.

The continuous upgrading of our network using next-generation facilities and the completion of our domestic fiber optic backbone has enabled us to offer a growing range of value-added and broadband services. With this and other technological upgrades, our infrastructure has developed from a traditional voice facility to a new packet-switched and IP-based network allowing faster transmission of voice, video and data.

Our IP-based services include *PLDT DSL* (*myDSL* and *BizDSL*), a broadband internet service targeted for heavy individual internet users as well as for small and medium enterprises, *PLDT Vibe*, a dial-up/narrowband internet service targeted for light to medium residential individual internet users, and I-Gate, our dedicated leased line internet access service targeted for enterprises and value-added service providers.

In addition, in 2006, we introduced *Shops.work Unplugged*, or SWUP, a bundled service using Smart s GPRS/EDGE network and PLDT s virtual private network, or VPN, for retailers and banks that offers real-time wireless data communication for retailers cashiering point-of sale networks, bank automated teller machines, or ATMs, and merchants swipe card terminals.

In 2007, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing offerings.

Information and Communications Technology

We conduct our information and communications technology, or ICT, businesses through our wholly-owned subsidiary ePLDT. ePLDT is a broad-based integrated information and communications technology company, focusing on infrastructure and solutions for internet applications, internet protocol-, or IP-, based solutions and multimedia content delivery. ePLDT's principal businesses are the operation of (1) knowledge processing solutions, through the SPi Group, (2) customer interaction services through Vocativ, Parlance and *Ventus*, (3) an internet data center under the brand name *Vitro* , and (4) internet and online gaming through Infocom, netGames, Digital Paradise, Digital Paradise Thailand, Level Up! and Airborne Access. Our ICT business segment registered revenues of Php10,799 million and Php6,925 million, accounting for 7% and 5% of our total revenues for 2007 and 2006, respectively. The increase in the revenue contribution from our information and communication technology segment was primarily due to the consolidation of SPi, CyMed and Level Up! since their acquisition by ePLDT on July 11, 2006, August 11, 2006 and April 30, 2006, respectively, and has increased with the full-year consolidation of the SPi Group in 2007.

Knowledge Processing Solutions

ePLDT provides knowledge processing solutions through SPi Group, the second largest pure-play knowledge processing solutions company and the ninth largest independent knowledge processing solutions service provider worldwide acquired by ePLDT in July 2006. SPi has operations in 19 locations in North America, Europe and Asia. On August 11, 2006, SPi acquired 100% of CyMed, a leading medical transcription company based in Richmond, Virginia, and on April 12, 2007, SPi acquired 100% of Springfield, one of the ten largest players in the medical billing and revenue cycle management market.

Customer Interaction Services

ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its customer interaction service businesses, including Vocativ and Parlance. *Ventus* provides offshore, cost-effective contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, U.S. and U.K., while Parlance provides the exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the U.S. In total, we owned and operated 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.

Internet and Online Gaming

ePLDT s internet and online gaming business is conducted through several subsidiaries. ePLDT owns a 99.6% interest in Infocom, one of the country's leading internet service providers, or ISPs. Infocom offers consumer prepaid internet access under the name *WarpSpeed* and *Speed Tipid* and postpaid internet access; dedicated dial-up and multi-user dial-up corporate leased lines; broadband internet access through DSL and cable; and website consulting, development and hosting. ePLDT also owns a 75% interest in Digital Paradise, an internet café business with over 174 branches which assumed the assets of Netopia Computer Technologies, Inc. and the brand *Netopia.* ePLDT further holds an 80%-interest in netGames, a publisher of Massively Multi-player Online Games in the Philippines, and is the Philippine licensee of *Khan Online*, the country s first full 3D online game; a 51% interest in Airborne Access, the country s leading operator of WiFi hotspots, which provides wireless internet access in hotspots equipped with Airborne Access WiFi access points and a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines with about an 80% share of the online gaming market.

Data Center

ePLDT operates *Vitro* , one of the Philippines' first internet data centers. *Vitro* is a CISCO-certified co-location service provider. *Vitro* provides co-location, web and 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 internet protocol security services, as well as firewall and managed firewall services.

Infrastructure

Wireless Network Infrastructure

Cellular

Through Smart, we operate a digital GSM network. To meet the growing demand for cellular services, Smart has implemented an extensive deployment program for its GSM network covering substantially all of Metro Manila and most of the other population centers in the Philippines. As at December 31, 2007, Smart had 43 mobile switching centers and 77 text messaging service centers and 7,825 base stations in operation after having added 1,726 base stations to its nationwide cellular network in 2007, Piltel had six active cell sites.

Smart has an operating spectrum of 7.5 MHz in the 900 band supporting both its GSM and previously its ETACS network and 20 MHz in the 1800 band for GSM and 15 MHz in the 3G band for W-CDMA. Its dual-band GSM network allows it to efficiently deploy high capacity 1800 MHz base transceiver stations in dense urban areas while its 900 MHz base transceiver stations can be much more economically deployed in potentially high growth, but less densely populated provincial areas. The 3G network revolutionizes mobile technology by providing more capacity, faster data rates and richer data and video applications. Its initial deployment is seen as feasible in urban areas where there is a demand for mobile broadband applications and where 3G mobile units are more likely to be available. Spectrum constraints will not affect the Smart s expansion plans for GSM in the foreseeable future.

Due to its access to PLDT s network assets, Smart has been able to achieve significant capital expenditure savings, which capital expenditures are understood to be significantly less, on a per net addition basis, than its current competitors. This translates into an improved ability to price competitively and target the mass market subscriber base in the Philippines, while retaining profitability. Based on existing equipment purchase contracts, Smart expects incremental capital expenditure per net additional subscriber to amount to less than US$50.

We expect continued increases in coverage (particularly indoor) in the coming years, as well as the introduction of new types of BTS for indoor and commercial offices. Smart has introduced the *NanoBTS,* a compact and easy-to-deploy solution for indoor coverage and increased efficiencies in underserved offices and buildings. The new base station equipment uses IP for transport and Smart is one of the very first operators to deploy this access solution.

Smart was awarded a 3G license by the NTC in 2005 and received the largest radio frequency allocation of 15 MHz. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum, the range that would best enable it to rapidly deploy its 3G network nationwide and at the same time offer the highest quality of 3G service. Smart has commenced its 3G network roll-out and continues to extend the reach of its 3G network in various cities and municipalities nationwide, further improving coverage in major urban centers and selected provincial areas.

Smart and Piltel have been co-locating their cell sites where their base stations are installed. As at December 31, 2007, 26 of Smart's mobile switching centers and 214 of Smart's cell sites were housed in PLDT s fixed line complexes while 249 of Smart s cell sites were co-located with Piltel. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

Wireless Broadband, Satellite and Other Services

SBI operates a nationwide broadband wireless internet data services. It is operating in the 2.4, 3.5 and 5.7 GHz spectrum, supporting its WiFi, Canopy and eventually WiMax services, respectively. It offers fixed wireless broadband internet connectivity to both residential and corporate clients. It also maintains and operates WiFi hotspots installations that serve mobile internet users. Almost 1,798 of Smart s base stations are now wireless broadband-capable, covering most of the key cities and the other populated centers in the country. These are strategically co-located in the Smart s cellular base stations that allow it to reach as many subscribers as possible, in the fastest possible way. For its backbone, it uses the nationwide PLDT and Smart fiber optic and IP backbone that provide substantial bandwidth capacity to utilize and to grow on demand.

Mabuhay Satellite controls and operates the Agila II satellite, which has 30 C-band transponders and 24 Ku-band transponders covering the Asia-Pacific region, the Indian subcontinent and Hawaii. Of the 54 transponders, six have restricted usage due to satellite interference. Through Agila II, Mabuhay Satellite offers internet service, video and data broadcasting, and bandwidth-on-demand, facilitating communication links between telecommunications, broadcast and other public utility companies operating in the Asia-Pacific region. In December 2000, Agila II joined the U.S. FCC's "Permitted Space Station" list, which permits U.S.-owned and operated earth stations in Hawaii to access Agila II for transpacific telecommunications, data, video and internet-over-satellite traffic and vice versa.

ACeS Philippines manages, controls and operates its own satellite gateway and other ground infrastructure, including a 13-meter feeder-link C-band earth station, beam congruency antenna and equipment that serve as the primary interface between the ACeS system and other telecommunications networks. It uses the Garuda I satellite to transmit digital voice services to ACeS Philippines mobile and fixed terminal users within the Asian service area.

Fixed Line Network Infrastructure

Domestic

Our domestic telephone network includes installed telephones and other equipment on customers premises, local access lines connecting customers to exchanges, referred to as outside plant, inter-office lines connecting exchanges, and long distance transmission equipment. As at December 31, 2007, we had 228 central office exchanges compared to 184 in 2006.

We have our own 6,400-kilometer DFON, the country's first telecommunications network using fiber optics in delivering voice, video, data, and other broadband and multimedia services nationwide. Our fiber optic network employs synchronous digital hierarchy technology to improve network performance and reduce operating costs. Our network is composed of in-land and submarine cable installations and is configured in seven self-healing rings allowing route delivery even in the event of single link failure per ring. To date, the PLDT DFON is equipped with N x 10 gigabits per second capacity and is connected directly to four existing international submarine cable systems. We use *CS VEGA*, a cable ship which we lease from NTT World Engineering Marine Corporation, or NTT-WEM, pursuant to a chartered arrangement maintenance contract to maintain the 2,400 kilometers of submarine cable comprising the submerged portion of our DFON. This seven-year maintenance contract, as extended, expired last December 31, 2007. We are currently renewing the contract with NTT-WEM on a monthly basis until such time that a new long-term maintenance contract is in place.

We are currently upgrading our fixed line facilities to NGN, a broad term for certain emerging computer network technologies that can encompass voice, data and video where all information is efficiently transmitted via digital packets of data. It is a platform that will allow for more services to be made available to our fixed line subscribers.

International

We provide international network services using our three international gateway switching exchanges. As at December 31, 2007, our international long distance facilities allow direct correspondence with 47 countries/territories (representing 87 correspondents) and can reach 460 foreign destinations (via direct and transited routes including breakouts) worldwide. We also own interests in submarine and satellite systems, through which we route most of our international traffic.

The table below shows the submarine cable systems in which we have interests and the countries or territories they link:

Cable System	**Countries Being Linked**
G-P	Guam and the Philippines

Asia-Pacific Cable Network	Korea, Japan, Hong Kong, Taiwan, Australia, Philippines, Singapore, Malaysia, Indonesia and Thailand
Asia-Pacific Cable Network 2	Philippines, Hong Kong, Japan, Korea, Malaysia, Singapore, China and Taiwan
Transpacific Cable No. 5	Guam, Japan, Hawaii and the U.S. Mainland
SEA-ME-WE-3	Japan, Korea, China, Taiwan, Hong Kong, Macau, Philippines, Vietnam, Cambodia, Brunei, Malaysia, Singapore, Indonesia, Australia, Thailand, Myanmar, Sri Lanka, India, Pakistan, United Arab Emirates, Oman, Djibouti, Saudi Arabia, Egypt, Cyprus, Turkey, Greece, Italy, Morocco, Portugal, France, UK, Belgium and Germany
Americas Cable 1	U.S. Mainland, U.S. Virgin Islands, Brazil, Trinidad and Venezuela
China-U.S. Cable	Japan, China, Taiwan, Korea, Guam and U.S. Mainland
Columbus II Cable	U.S. Mainland, Italy, U.S. Virgin Islands, Mexico, Portugal and Spain
FLAG Cable	Japan, Korea, China, Hong Kong, Malaysia, Thailand, India, United Arab Emirates, Saudi Arabia, Egypt, Italy, Spain and UK
RJK Cable	Russia, Japan and Korea
Southern Cross Cable	U.S. Mainland, Hawaii, Fiji, Australia and New Zealand
TAT 12/13 Cable	U.S. Mainland, UK and France
TVH Cable	Thailand, Vietnam and Hong Kong
EAC Cable	Japan, Hong Kong, Korea, Taiwan, Singapore and the Philippines
PC-1, Japan-U.S. Cable and TGN	Japan and the U.S.

Additionally, on May 2, 2007, a consortium of seventeen major international telecommunication operators, including PLDT, signed an agreement to build the first high-bandwidth optical fiber submarine cable system linking Southeast Asia and the U.S. The cable project, known as the *Asia-America Gateway,* will span 20,000 kilometers and will use the latest Dense Wavelength Division Multiplexing technology to provide upgradeable, future proof transmission facilities that will support bandwidth requirements for new and revolutionary broadband applications. It is expected that the *Asia-America Gateway* will cost approximately US$500 million (of which US$50 million represents PLDT s investment) and will be ready for service by the first quarter of 2009.

Interconnection Agreements

Since the issuance of Executive Order No. 59 in 1993, which requires non-discriminatory interconnection of Philippine carriers' networks, we have entered into bilateral interconnection arrangements with other Philippine fixed line and cellular carriers.

Since January 1, 2004, calls terminating to cellular subscribers originating from fixed line subscribers are charged a termination rate of Php4.00 per minute.

Since January 1, 2004, local access for cellular operators, including Smart, that terminate calls to PLDT s fixed line network were charged at Php3.00 per minute.

Under a separate agreement between PLDT and PAPTELCO, PLDT is the transit facility provider between Smart, Globe, other local exchange carriers, or LEC, operators and PAPTELCO. PAPTELCO is comprised of 48 LEC and operating in 144 major telephone exchanges nationwide. Transit traffic is a service by PLDT to Smart, Globe, other LEC operators and PAPTELCO members where PAPTELCO members have no direct interconnection with either Smart, Globe and other LEC operators.

Since February 1, 2003, international calls terminating to PLDT s fixed line network were charged a termination rate of approximately US$0.12 per minute. Also, international calls terminating to Smart s cellular network were charged a termination rate of US$0.16 per minute.

Since January 1, 2002, Smart charged a termination rate of Php4.00 per minute for calls originating from/terminating to another cellular operator s network. For SMS originating from Smart and terminating on other operators cellular network and for SMS originating from other operators and terminating on Smart s cellular network, the charge is Php0.35 per message.

Licenses and Regulation

PLDT, Smart and Piltel provide telecommunications services pursuant to legislative franchises that expire, in the case of PLDT, on November 28, 2028, in the case of Smart, on March 27, 2017 and, in the case of Piltel, on May 14, 2019. A franchise holder is required to obtain operating authority from the NTC to provide specific telecommunications services. These approvals may take the form of a Certificate of Public Convenience and Necessity, or CPCN, or, while an application for a CPCN is pending, a provisional authority to operate. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned.

PLDT operates its business pursuant to a number of provisional authorities and CPCNs, the terms of which will expire at various times between now and 2028. PLDT's CPCNs to provide services to most of the Metropolitan Manila area, Davao and other Philippine cities expired in 2003. Although some of PLDT's CPCNs and provisional authorities have already expired, PLDT filed timely applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC s decision on these extensions. PLDT expects that the NTC will grant these extensions; however, there can be no assurance that this will occur. The period of validity of some of PLDT s CPCNs which expired on November 28, 2003, coterminous with the term of its previous franchise under Republic Act No. 6146, has been extended further by the NTC to November 28, 2028, coterminous with PLDT s current franchise under

Republic Act No. 7082. Motions to extend the period of validity of the other CPCNs to November 28, 2028 are currently pending with the NTC. See Item 3. Key Information Risks Factors Risks Relating to Us Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes.

Smart operates its cellular, international long distance and national long distance services pursuant to CPCNs, the terms of which will expire upon the expiration of its franchise. On July 22, 2002, Smart was granted separate CPCNs to operate a cellular mobile telephone system, or CMTS, and an international gateway facility. On August 26, 2002, Smart was granted a CPCN to install, operate and maintain nationwide global mobile personal communications via satellite which will also expire upon expiration of its franchise. On February 19, 2008, Smart was granted a CPCN to establish, install, maintain, lease and operate an international private leased circuit for a term that is co-terminus with the expiration of its franchise. Prior to that, Smart was permitted to engage in these activities pursuant to a provisional authority and a timely filed application for the grant of such CPCN. On the same date, upon application of Smart, the NTC extended Smart s provisional authority to construct, install, operate and maintain a nationwide public calling office and public payphone service from January 4, 2007 to January 4, 2010.

On December 29, 2005, Smart was awarded a 3G license by the NTC after being ranked highest in garnering a perfect score on a 30-point grading system designed to gauge the capability of telecommunication operators to effectively provide extensive 3G services. As a result, Smart received the largest radio frequency allocation of 15 MHz as well as first choice of frequency spectrum. Smart chose the 1920-1935 MHz and 2110-2125 MHz spectrum. Smart is required to pay annual license fees of Php115 million based on the 15 MHz awarded to Smart.

Under the terms of the 3G license, Smart is required to:

- begin installation and rollout of its 3G network no later than 18 months from the date of the award;
- start commercial operations no later than 30 months from the date of the award; and
- cover at least 80% of provincial capitals and 80% of chartered cities within five years.

Piltel is authorized to provide virtually every type of telecommunications service, including the transmission of voice, data facsimile, audio and video and information services, in and between provinces, cities and municipalities throughout the Philippines. The franchise, which was last amended on May 14, 1992, will expire on May 14, 2019 and may be extended by a legislative act of the Philippine Congress.

The following table sets forth the spectrum system, licensed frequency and bandwidth used by Smart, Piltel and SBI:

Carrier	Spectrum System	Frequency Assignment	Bandwidth
Smart	ETACS/GSM 900	897.5-905/942.5-950 MHz	7.5 MHz
	GSM 1800	1725-1730/1820-1825 MHz	5.0 MHz
		1730-1732.5/1825-1827.5 MHz	2.5 MHz
		1735-1740/1830-1835 MHz	5.0 MHz
		1745-1750/1840-1845 MHz	5.0 MHz
		1780-1782.5/1875-1877.5 MHz	2.5 MHz
	3G (W-CDMA)	1920-1935/2110-2125 MHz	15.0 MHz
Piltel	AMPS/CDMA	845-846.5/890-891.5 MHz	1.5 MHz
SBI	Wireless broadband	2400-2483.5 MHz *	73 MHz
		3400-3590 MHz *	94 MHz
		5470-5850 MHz *	123 MHz

** SBI frequency assignments on these bands are non-contiguous and on a per station and location basis.*

Operators of international gateway facilities and cellular telephone operators, pursuant to Executive Order No. 109, are required to install a minimum number of local exchange lines. Of these new lines, operators are required to install one rural exchange line for every ten urban exchange lines installed. Smart and Piltel were required to install 700,000 and 400,000 lines, respectively, and each has received a certificate of compliance from the NTC.

PLDT, Smart and Piltel are required to pay various permit, regulation and supervision fees to the NTC. PLDT was previously engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see Item 8. Financial Information Legal Proceedings NTC supervision and regulatory fees, or SRF.

Piltel is engaged in discussions with the NTC relating to the allocation and use of certain 3G radio frequency bands. On August 23, 2005, the NTC issued Memorandum Circular No. 07-08-2005 or the Rules and Regulations on the Allocation and Assignment of 3G Radio Frequency Bands, allocating the 825-845MHz/870-890MHz frequency band for 3G. In a letter dated December 8, 2005, Piltel informed the NTC of its intent to upgrade its existing CDMA CMTS network to 3G.

In a letter dated June 18, 2007, Piltel requested the NTC to affirm its right to use the said frequency band by allowing the joint use thereof by Smart and Piltel which was granted previously by NTC (through then Commissioner Rio) in a letter dated May 6, 2002, arguing that the re-allocation of the frequency band was done without due process; that Piltel had been complying with the mandates of the NTC and had been persistently applying for, and renewing, the Radio Station Licenses (RSLs); that it had been paying the spectrum users fees (SUF); and that the re-allocation of the frequency band for 3G renders inutile the RSLs with effectivity dates of up to June 30, 2008.

In a letter dated November 27, 2007, Piltel requested to use the 824-835MHz/869-880MHz frequency band for 3G services, with a commitment to submit pertinent documents, referring to its letter of December 8, 2005 on its intent to upgrade its existing CDMA CMTS network to 3G.

However, in its letter dated December 12, 2007, the NTC denied Piltel s letter of November 27, 2007 citing that records showed that the radio frequencies 824-835MHz/869-880MHz had been re-allocated for International Mobile Telecommunications 2000 (IMT2000) or Third Generation (3G) Mobile Telecommunications Services under Memorandum Circular 07-08-2005 and that Piltel had not applied for the assignment and use of radio frequencies re-allocated for 3G Mobile Telecommunications Service nor was qualified for the assignment of the same.

In a letter dated December 19, 2007, Piltel requested reconsideration of the December 12, 2007 letter of the NTC, reiterating its commitment to submit necessary documents that may be required by the NTC. Piltel s request for reconsideration remains pending with the NTC.

The Philippine Congress is considering two bills that relate to the imposition of franchise tax on telecoms companies. HB No. 1469 proposes to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. HB No. 1560 proposes a franchise tax at the rate of 3.5% on the first year and 7% thereafter on the gross receipts of telecoms and broadcast companies, in lieu of the VAT. There are also various bills in Congress which propose to tax telecommunications services, among them, the imposition of a tax on mobile phone companies on all text entries to text games; the imposition of a Php0.50 specific tax on each SMS to be borne by the cellular phone companies; and the imposition of a 10% ad valorem tax on all cellular phone calls using 3G.

In order to diversify the ownership base of public utilities, the Public Telecommunications Policy Act (R.A. 7925) requires a telecommunications entity with regulated types of services to make a public offering through the stock exchanges representing at least 30% of its aggregate common shares by the later of the fifth anniversary of the date (a) the law became effective or (b) the entity s commencement of commercial operations.

PLDT and Piltel have complied with this requirement. However, Smart has not conducted a public offering of its shares. If Smart is found to be in violation of R.A. 7925, this could result in a revocation of the franchise of Smart and in the filing of a *quo warranto* case against Smart by the Office of the Solicitor General of the Philippines. See Item 3. Key Information Risk Factors The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares for further discussion.

Competition

Including us, there are nine major local exchange carriers, seven international gateway facility providers and five cellular service providers in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we are facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments.

Cellular Service

There are presently six operating service providers, namely Smart, Piltel, Globe, Innove, Digitel and Express Telecom, or Extelcom. Globe acquired Innove to form into one operating group while Smart and Piltel, both being part of the PLDT Group, formed another operating group. These two operating groups have approximately 92% of the Philippine cellular market. There are therefore effectively two large competitors in the Philippine cellular market. The third active operator, Digitel commenced its cellular service, *Sun Cellular*, on March 29, 2003 and is estimated to have approximately 8% of the cellular market as at December 31, 2007. Extelcom operates on an analog platform and is estimated to have minimal subscribers. In December 2005, the NTC awarded four out of five 3G licenses to existing cellular operators Smart, Globe, Digitel and to a new entrant, Connectivity Unlimited Resources Enterprises, or CURE. The NTC has yet to award a fifth license to another operator.

Competition in the cellular industry has intensified with the increased availability of affordably priced handsets offering a range of new functions and the introduction by competitors of new and improved plans for postpaid subscribers, reduced rates per minute and aggressive marketing and promotional strategies. The principal bases of competition are price, including handset cost, quality of service, network reliability, geographic coverage and attractiveness of packaged services. Smart's network leads the industry in terms of coverage with 7,825 base stations as at December 31, 2007.

As a result of competitive pressures, several service providers, including Smart and Piltel, have, in the last two years, introduced bucket plans providing unlimited voice and text services, and other promotions. The launch of *Sun Cellular s 24/7* promotion stimulated a market segment that is attracted to bucket plans for voice and text services. Smart launched *Smart 258* , a registration-based service which offers unlimited on-networks text messaging in various load denominations with designated expiration periods. While most of the bucket priced plans currently available in the market are being offered on promotional bases, Smart, Globe and Sun Cellular continue to launch other services that are designed to encourage incremental usage from existing subscribers and also to attract new subscribers.

Cellular operators also compete actively in launching innovative products and value-added services. The growing range of cellular products and services include not only text messaging but also multi-media messaging, voice mail, text mail, international roaming, information-on-demand, mobile banking, e-commerce, mobile data, cellular internet access and internet messaging.

On February 14, 2006, Smart opened its 3G network in selected key cities nationwide, making video calling, video streaming, high speed internet browsing and special 3G content downloads on its 3G network available to subscribers with 3G handsets. Likewise, Globe is currently rolling out its 3G network.

Consistent with industry practice and Smart s churn management efforts, Smart "locks" the handsets it sells to its subscribers, rendering them incompatible with SIM cards issued by competitors and thereby hindering them from swapping the existing SIM for a SIM of a competing operator. However, subscribers can have their handsets unlocked by unauthorized parties for a nominal fee and purchase new SIM cards from competing operators. Unlocking does not involve significant cost. Switching to another cellular operator would, however, result in a change of the subscriber s cellular telephone number.

In order to avail themselves of promotions and cost efficient network-to-network calling rates, cellular subscribers in the Philippines have increasingly been subscribing to the services of multiple wireless operators. As a result, the increases in 2007 in our cellular subscriber base and the penetration rate of the wireless market in the Philippines partly was impacted by such multiple SIM card ownership .

Local Exchange Service

The concerted nationwide local exchange line build-out by various players, as mandated by the Philippine government, significantly increased the number of fixed line subscribers in the country and resulted in wider access to basic telephone service. The growth of the fixed line market, however, remained weak due to the surge in demand for cellular services and, in the past, the general sluggishness of the national economy. Nevertheless, we have sustained our leading position in the fixed line market on account of PLDT's extensive network in key cities nationwide. In most areas, we face one or two competitors. Our principal competitors in the local exchange market are Digitel, Bayan Telecommunications and Globe, which provide local exchange service through fixed wireless landline services.

There are currently four major fixed wireless landline services in the market that adopt the look and feel of a cellular phone service but provide the same tariff structure of a fixed line service such as the charging of monthly service fees. The earliest such service was provided by Digitel in the fourth quarter of 2005 at a fixed monthly rate of Php672. This service is provided mostly in selected areas of Southern and Northern Luzon where Digitel was lacking fixed cable facilities. Globe quickly followed suite with a similar service at a monthly rate of Php995 which service bundled a wireless landline and broadband internet connection of 384kbps. This service is offered in limited areas of Metro Manila like Makati, Las Piñas, the Visayas region and selected areas of Southern Luzon like Cavite and Batangas.

The most aggressive service of this type was launched by BayanTel in the second half of 2006, which service maintains two major price points open to both residential and business subscribers. This service is available under two plans, a plan at a monthly rate of Php699 for customers in Metro Manila and a plan at a monthly rate of Php599 for customers in selected regional areas of the Philippines.

In March 2007, we launched the *PLDT Landline Plus,* a postpaid and prepaid fixed wireless service which was initially available only in regional areas where there were no available PLDT fixed cable facilities, at a flat monthly rate of Php499, and which was subsequently extended to other areas, including Metro Manila, and increased to a monthly rate of Php600 for residential and Php1,000 for business subscribers.

International Long Distance Service

Including us, there are 11 licensed international gateway facility operators in the country. While we have so far been able to maintain a leadership position in this highly competitive segment of the industry, in recent years, our market share has reduced largely as a result of (1) competition from other international gateway facility operators and illegal international simple resale operators; (2) an increase in inbound and outbound international long distance calls terminating to and originating from the growing number of cellular subscribers; and (3) the popularity of alternative and cheaper modes of communication such as text messaging, e-mail, internet telephony and the establishment of VPNs for several corporate entities, further heightening the competition.

With respect to outbound calls from the Philippines, we compete for market share through our local exchange and cellular businesses, which are the origination points of outbound international calls. We have also introduced a number of marketing initiatives to stimulate growth of outbound call volumes, including tariff reductions and volume discounts for large corporate subscribers. Digitel and Globe have also launched new pricing schemes to grow their outbound call volumes.

With respect to inbound calls into the Philippines, we have been pursuing a number of initiatives to strengthen our inbound telecommunications traffic, including lowering our termination rates and identifying and limiting unauthorized traffic termination. In addition, we have also established, through our wholly-owned subsidiary PLDT Global, presence in key cities overseas to identify and capture Philippine terminating traffic at its source, maximize the use of our international facilities and develop alternative sources of revenue.

National Long Distance Service

Our national long distance service business has been negatively affected by the growing number of cellular subscribers in the Philippines and the widespread availability and growing popularity of alternative economical non-voice methods of communication, particularly text messaging and e-mail. In addition, various ISPs have launched voice services via the net to their subscribers nationwide.

While national long distance call volumes have been declining, we have remained a leading provider of national long distance service in the Philippines due to our significant subscriber base and ownership of the Philippines most extensive transmission network.

PLDT launches from time to time promotions bundled with our other products to attract new subscribers, including free PLDT-to-PLDT NDD service.

Data and Other Network Services

Another rapidly growing segment of the industry is the market for data and other network services. The growth is spurred by the significant growth in consumer/retail narrowband and broadband internet access, enterprise resource planning applications, customer interaction services, knowledge processing solutions, on-line gaming and other e-services that drive the need for broadband and internet-protocol based solutions both here and abroad. Our major competitors in this area are Globe/Innove, Bayan Telecommunications, Eastern Telecoms and Digitel. The principal bases of competition in data services market are coverage, price/value for money, bundles or free gifts, customer service and quality of service.

Environmental Matters

We have not been subject to any material fines or legal or regulatory action involving non-compliance with environmental regulations of the Philippines. We are not aware that we are not in compliance in any material respect with relevant environmental protection regulations.

Intellectual Property Rights

We do not own any material intellectual property rights apart from our brand names and logos. We are not dependent on patents, licenses or other intellectual property which are material to our business or results of operations, other than licenses to use the software that accompany most of our equipment purchases.

Properties

We own four office buildings located in Makati City and own and operate 228 exchanges nationwide, of which 48 are located in the Metropolitan Manila area. The remaining 180 exchanges are located in cities and small municipalities outside Metropolitan Manila area. We also own radio transmitting and receiving equipment used for international and domestic communications. As at December 31, 2007, we had 5,001 cellular cell sites and 7,825 base stations.

As at December 31, 2007, our principal properties, excluding property under construction, consisted of the following, based on net book values:

- 67% consisted of cable, wire and cellular facilities, including our domestic fiber optic network, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;

- 17% consisted of central office equipment, including three international gateway facilities, six pure national toll exchanges and 15 combined local and toll exchanges, and our communications satellite;

- 11% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;

- 1% consisted of information origination and termination equipment, including pay telephones and radio equipment installed for customers use, and cables and wires installed within customers' premises; and

- 4% consisted of other work equipment.

For more information on these properties, see *Note 8 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18.

These properties are located in areas where our subscribers are being served. In our opinion, these properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The majority of our connecting lines are above or under public streets and properties owned by others.

PLDT's, Smart s and Piltel s properties are free from any mortgage, charge, pledge, lien or encumbrance; however, substantial properties of Mabuhay Satellite are subject to liens while a portion of ePLDT s property is subject to liens.

On February 1, 2008, SBI completed the acquisition of certain assets from Cruz Telephone Company, Inc., or Cruztelco, a local exchange operator offering fixed line services in North Eastern Mindanao. Please see *Note 8 Property, Plant and Equipment SBI s Acquisition of Cluster 3 Assets from Cruz Telephone Company, Inc., or Cruztelco* in the accompanying audited consolidated financial statements in Item 18 for further discussion.

PLDT has various long-term lease contracts, the bulk of which have lease terms ranging from two to ten years covering certain offices, warehouses, telecommunications equipment locations and various office equipment.

For more information on the obligations relating to these properties and long-term obligations, see *Note 24 Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 18.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements (and the related notes) as at and for the years ended December 31, 2007 and 2006 included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and our future financial performance. These statements involve risks and uncertainties, and our actual results may differ materially from those anticipated in these forward-looking statements as a result of particular factors such as those set forth under "Forward-Looking Statements" and Item 3. "Key Information Risk Factors" and elsewhere in this report. Our audited consolidated financial statements, and the financial information discussed below, have been prepared in accordance with IFRS. Since these are our first consolidated financial statements prepared in accordance with IFRS, pursuant to the transitional relief granted by the SEC in respect of the first-time adoption of IFRS, the following is limited to a discussion of our financial condition and results of operations for the years ended December 31, 2007 and 2006, and no comparative data for the year ended December 31, 2005 have been included. For further details, please see Presentation of Financial Information above. For convenience, certain peso financial information in the following discussions has been translated to U.S. dollars at the exchange rate at December 31, 2007 of Php41.411 to US$1.00, as quoted through the Philippine Dealing System.

Overview

We are the largest and most diversified telecommunications company in the Philippines. We have organized our business into three main segments which serve as the basis for management s decision to allocate resources and evaluate operating performance:

- *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 and ACeS Philippines, our wireless broadband satellite and other service 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 and BCC, PLDT Global and SNMI, which together account for approximately 3% of our consolidated fixed line subscribers; and

- *Information and Communications Technology* information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by ePLDT; customer interaction services provided under the umbrella brand name *ePLDT Ventus*, including Ventus, Parlance and Vocativ; knowledge processing solutions services provided through the SPi Group (consolidated since July 11, 2006); and internet access and online gaming services provided by ePLDT s subsidiaries Infocom, Digital Paradise, Digital Paradise Thailand, netGames, Airborne Access and Level Up!, as discussed in *Note 9 Investments in Associates and Joint Ventures* to the accompanying audited consolidated financial statements in Item 18.

Key performance indicators and drivers that our management uses for the management of our business include, among others, the general economic conditions in the Philippines, our subscriber base, traffic volumes, and interconnection arrangements.

Wireless

We provide cellular and wireless broadband, satellite and other services under our wireless business, with cellular services contributing about 95% and the remaining wireless services contributing approximately 5% of our wireless service revenues, respectively, in 2007. Rapid growth in the cellular market has resulted in a change in our revenue composition and sources of our revenue growth. Starting in 2003, cellular service has been our major revenue source surpassing fixed line revenues. As at December 31, 2007, Smart and Piltel, which offers services using Smart s network, had the largest and third largest cellular subscriber bases, respectively, in the Philippines. In 2007, Smart s and Piltel s subscribers increased by 24%, resulting in our aggregate system-wide cellular subscribers outnumbering our fixed line in service by more than 17 to 1 at the end of 2007. However, while our cellular subscriber base continued to increase in 2007, this increase was partly impacted by multiple-SIM card ownership , in which subscribers subscribe to our services in addition to having subscriber arrangements with other wireless operators, and our continued expansion in the lower income segment of the Philippine wireless market, which overall resulted in a decrease in our average revenue per user, or ARPU. Cellular data services, which include all text messaging and text-related services ranging from ordinary text to value-added services, contributed significantly to our cellular revenue increase. Our total wireless revenues in 2007 increased by 12% from 2006 and accounted for 58% and 56%, respectively, of our total revenues for each of the years ended December 31, 2007 and 2006.

Fixed Line

Our fixed line business provides local exchange service, international and national long distance services, data and other network services and miscellaneous services. Our total fixed line revenues accounted for 35% and 39% of our total revenues for the years ended December 31, 2007 and 2006, respectively. Local exchange and international long distance revenues have declined primarily due to the appreciation of the Philippine peso to the U.S. dollar. National long distance revenues have also been declining largely due to a drop in call volumes as a result of alternative means of communications such as texting, e-mailing and internet telephony. Mitigating these declines was the steady growth of our data and other network services over the recent years. Recognizing the growth potential of the data and other network services segment, we have put considerable emphasis on the development of new packet-switched, data-capable and IP-based networks.

Information and Communications Technology

We conduct our ICT businesses through ePLDT. ePLDT s principal businesses are the operation of an internet data center under the brand name *Vitro*TM; customer interaction service businesses, including Ventus, Vocativ and Parlance, under the brand name *ePLDT Ventus*; knowledge processing solutions provided by SPi; internet and online gaming through Infocom, Digital Paradise and Digital Paradise Thailand, netGames, Level Up! and Airborne Access. The revenue contribution of our information and communications technology segment accounted for 7% and 5% of our total revenues for the years ended December 31, 2007 and 2006, respectively. The increase in the revenue contribution from our information and communication technology segment was primarily due to the results of the full-year consolidation of the financial results of the SPi Group in 2007.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of our revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the reporting date. Due to uncertainties inherent in these assumptions and estimates, actual results and outcomes could differ from our assumptions and estimates. We believe the following represent our critical accounting policies under IFRS. The impact and any associated risks relating to these policies in our business operations are discussed elsewhere in this section.

Leases

We have various lease agreements as a lessee in respect of our certain equipment and properties. We evaluate whether significant risks and rewards of ownership of the leased properties are transferred to us or retained at the lessor based on *IAS 17*, *Leases* , which requires us to make judgments and estimates of transfer of risks and rewards of ownership. Total lease expense arising from operating leases amounted to Php2,762 million and Php2,257 million for the years ended December 31, 2007 and 2006, respectively. Total finance lease obligations as at December 31, 2007 and 2006 amounted to Php496 million and Php1,030, respectively. See *Note 18 Interest-bearing Financial Liabilities, Note 24 Contractual Obligations and Commercial Commitments* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

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 for the fair values of financial assets and liabilities. 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* to the accompanying audited consolidated financial statements in Item 18. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and 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 consolidated statement of changes in equity.

Total fair value of financial assets and liabilities as at December 31, 2007 amounted to Php46,661 million and Php111,086 million, respectively, while the total fair value of financial assets and liabilities as at December 31, 2006 amounted to Php36,517 million and Php124,801 million, respectively. See *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

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 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* to the accompanying audited consolidated financial statements in Item 18.

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 least 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.

We recognized additional depreciation charges of Php796 million and Php8,624 million in 2007 and 2006, respectively, due to a change in the estimated useful lives of certain of our network assets owing to continuing network upgrade and expansion. The acceleration of depreciation is expected to result in reduction of future monthly depreciation amounting to Php10 million going forward.

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* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

Goodwill and intangible assets

Our consolidated financial statements and results of operations reflect acquired businesses after the completion of the respective acquisition. We account for the acquired businesses using the purchase method of accounting which 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. Any excess in the purchase price over the estimated fair market values of the net assets/liabilities acquired is recorded as goodwill in the balance sheet. 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* to the accompanying audited consolidated financial statements in Item 18. Thus, the numerous judgments made in estimating the fair market value to be assigned to the acquiree s assets and liabilities can materially affect our results of operations.

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.

Realizability of deferred income tax assets

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 level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses as well as future tax planning strategies. 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.

Based on the above assessment, we have not recognized certain of our deferred income tax assets as at December 31, 2007 and 2006 amounting to Php1,122 million and Php299 million, respectively. Total deferred tax assets as at December 31, 2007 and 2006 amounted to Php13,757 million and Php20,538 million, respectively, while total deferred tax liabilities as at December 31, 2007 and 2006 amounted to Php2,066 million and Php402 million, respectively. See *Note 6 Income Tax* to the accompanying audited consolidated financial statements in Item 18.

Estimating allowance for doubtful accounts

We estimate the allowance for doubtful accounts related to our trade receivables that are specifically identified as 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 affect 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 credit 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 historical loss experience using 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.

Impairment provision for receivable recognized in consolidated statements of income amounted to Php417 million and Php736 million for the years ended December 31, 2007 and 2006, respectively. Trade and other receivables, net of impairment, amounted to Php12,645 million and Php10,158 million as at December 31, 2007 and 2006, respectively. See *Note 5 Income and Expenses, Note 14 Trade and Other Receivables* and *Note 26 Financial Assets and Liabilities* to the accompanying audited consolidated financial statements in Item 18.

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 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18 and include, among other things, discount rates, expected returns on plan assets and rates of compensation increases. 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 costs amounted to Php1,773 million and Php1,003 million for the years ended December 31, 2007 and 2006, respectively.

Unrecognized net actuarial gain as at December 31, 2007 amounted to Php1,344 million and unrecognized net actuarial loss as at December 31, 2006 amounted to Php4,657 million. The accrued benefit costs as at December 31, 2007 and 2006 amounted to Php2,985 million and Php2,888 million, respectively. See *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Share-based payment 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 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 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18 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 and 2006 amounted to Php1,448 million and Php3,150 million, respectively. As at December 31, 2007 and 2006, outstanding LTIP liability amounted to Php1,494 million and Php5,030 million, respectively. See *Note 5 Income and Expenses* and *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Asset impairment

IFRS 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 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 IFRS. Total impairment charges for the years ended December 31, 2007 and 2006 amounted to Php1,317 million and Php2,766 million, respectively. See *Note 4 Segment Information* and *Note* 5 *Income and Expenses* to the accompanying audited consolidated financial statements in Item 18.

The carrying value of our property, plant and equipment, investments in associates, goodwill and intangible assets, trade and other receivables and inventories and supplies are separately disclosed in *Notes 8, 9, 11, 14* and *15* to the accompanying audited consolidated financial statements in Item 18, respectively.

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 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 knowledge processing solutions 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.

New Accounting Pronouncements Effective Subsequent to 2007

Please see *Note 2 Summary of Significant Accounting Policies and Practices* to the accompanying audited consolidated financial statements in Item 18 for a discussion of new accounting standards that will become effective subsequent to December 31, 2007 and their anticipated impact on our consolidated financial statements.

Results of Operations

The following table shows the contribution by each of our business segments to our total revenues, expenses and net income (loss) for each of the years ended December 31, 2007 and 2006. Most of our revenues are derived from our operations within the Philippines. Our revenues derived from outside the Philippines consist primarily of revenues from incoming international calls to the Philippines.

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total
			(in millions)		
For the year ended December 31, 2007					
Total Revenues	Php94,105	Php56,797	Php10,799	(Php9,839)	Php151,862
Service	86,497	48,551	10,055	(9,627)	135,476
Non-service	2,800	281	267	(122)	3,226
Foreign exchange gains (losses) net	2,649	5,479	(138)		7,990
Interest Income	1,186	296	21		1,503
Other Income	973	2,190	594	(90)	3,667
Expenses	46,759	45,920	11,010	(9,908)	93,781
Net Income (Loss)	31,780	7,519	(94)	69	39,274
For the year ended December 31, 2006					
Total Revenues	84,030	57,910	6,925	(9,141)	139,724
Service	78,395	49,174	6,337	(8,919)	124,987
Non-service	2,010	79	553	(122)	2,520
Foreign exchange gains (losses) net	1,722	3,210	(109)		4,823
Interest Income	1,197	441	16		1,654

Other Income	706	5,006	128	(100)	5,740
Expenses	47,559	55,783	7,274	(9,141)	101,475
Net Income (Loss)	30,127	2,766	(312)		32,581

2007 Compared to 2006

On a Consolidated Basis

Total Revenues

Our total revenues for 2007 increased by Php12,138 million, or 9%, to Php151,862 million from Php139,724 million in 2006. This increase was primarily due to (i) an increase in our service revenues primarily resulting from the continued growth of our wireless business and an increase in our ICT revenues largely due to the effects of the full-year consolidation of the financial results of SPi, CyMed and Level Up! and the continued increase in our customer interaction service revenues, which was partially offset by a continued decrease in our fixed line revenues; and (ii) an increase in foreign exchange gains, primarily due to the effect of foreign exchange revaluation as a result of the higher level of appreciation of the Philippine peso in 2007, which was partially offset by a decrease in our other income primarily resulting from a recognition in 2006 in our fixed line business of a net reversal of provision for onerous contract related to the ATPA with AIL. The revenue contribution of our wireless business accounted for 62% and 60% of our total revenues for 2007 and 2006, respectively.

The following table shows the breakdown of our total revenues for the years ended December 31, 2007 and 2006 by business segment:

	Years Ended December 31,					
					Change	
	2007	%	2006	%	Amount	%
			(in millions)			
Wireless	Php94,105	62	Php84,030	60	Php10,075	12
Fixed line	56,797	37	57,910	41	(1,113)	(2)
Information and communications technology	10,799	7	6,925	5	3,874	56
Inter-segment transactions	(9,839)	(6)	(9,141)	(6)	(698)	8
Total	Php151,862	100	Php139,724	100	Php12,138	9

Total Expenses

Our total expenses in 2007 decreased by Php7,694 million, or 8%, to Php93,781 million from Php101,475 million in 2006. This decrease was primarily due to lower financing costs on account of lower accretion of financial liabilities complemented by lower loss on derivative transactions and loans and related items and lower depreciation and amortization, which was partially offset by an increase in professional and other contracted services and compensation and employee benefits. As a percentage of our total revenues, total expenses decreased to 62% in 2007 from 73% in 2006.

The following table shows the breakdown of our total expenses for the years ended December 31, 2007 and 2006 by business segment:

	Years Ended December 31,					
					Change	
	2007	**%**	**2006**	**%**	**Amount**	**%**
			(in millions)			
Wireless	Php46,759	50	Php47,559	47	(Php800)	(2)
Fixed line	45,920	49	55,783	55	(9,863)	(18)
Information and communications technology	11,010	12	7,274	7	3,736	51
Inter-segment transactions	(9,908)	(11)	(9,141)	(9)	(767)	8
Total	Php93,781	100	Php101,475	100	(Php7,694)	(8)

Provision for Income Tax

Provision for income tax increased by Php13,139 million, or 232%, to Php18,807 million in 2007 compared to Php5,668 million in 2006 mainly due to the reversal in 2006 of a valuation allowance of deferred tax assets in relation to the likelihood that Piltel would be able to realize the future benefits on these assets in 2006 and lower accelerated depreciation recognized in 2007.

Consolidated Net Income

As a result, our consolidated net income in 2007 was Php39,274 million, an increase of Php6,693 million, or 21%, compared to Php32,581 million in 2006. The following table shows the breakdown of our consolidated net income for the years ended December 31, 2007 and 2006 by business segment:

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

Wireless	Php31,780	81	Php30,127	92	Php1,653	5
Fixed line	7,519	19	2,766	9	4,753	172
Information and communications technology	(94)		(312)	(1)	218	(70)
Inter-segment transactions	69				69	100
Total	Php39,274	100	Php32,581	100	Php6,693	21

On Business Segment Basis

Wireless

Total Revenues

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

The following table summarizes our total revenues 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	88	Php75,617	90	Php6,717	9
Wireless broadband, satellite and others	4,163	4	2,778	3	1,385	50
	86,497	92	78,395	93	8,102	10
Non-service Revenues						
Sale of cellular handsets and SIM-packs	2,800	3	2,010	2	790	39
Foreign exchange gains net	2,649	3	1,722	2	927	54
Interest Income	1,186	1	1,197	2	(11)	(1)
Other Income	973	1	706	1	267	38
Total Wireless Revenues	Php94,105	100	Php84,030	100	Php10,075	12

Service Revenues

Our wireless service revenues increased by Php8,102 million, or 10%, to Php86,497 million in 2007 compared to Php78,395 million in 2006, mainly as a result of the continued 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 our dollar-linked revenues. As a percentage of our total wireless revenues, service revenues contributed 92% in 2007 as compared to 93% in 2006.

Cellular Service

Unless otherwise indicated, the financial data and operating metrics cited in the cellular service section reflect the consolidated results of our cellular subsidiaries, Smart and Piltel.

Our cellular service revenues consist of: (i) 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; (ii) monthly service fees from postpaid subscribers, including: (a) toll charges for national and international long distance calls; (b) charges for calls and text messages in excess of allocated free local calls and text messages, respectively; and (c) charges for value-added services, net of related content provider costs; (iii) 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 (iv) other charges, including those for reconnection and migration.

Our cellular service revenues in 2007 amounted to Php82,334 million, an increase of Php6,717 million, or 9%, from Php75,617 million in 2006. Cellular service revenues accounted for 95% of our wireless service revenues in 2007 as compared to 96% in 2006. The increase in cellular service revenues was primarily due to the continued growth of Smart s and Piltel s subscriber base. As at December 31, 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 as at December 31, 2006. However, while our cellular subscriber base continued to increase in 2007, this increase was partly impacted by multiple-SIM card ownership , in which subscribers subscribe to our services in addition to having subscriber arrangements with other wireless operators, and our continued expansion in the lower income segment of the Philippine wireless market, which overall resulted in a decrease in our average revenue per user, or ARPU. While our combined cellular subscriber base continued to increase in the first two months of 2008 and reached 31,130,236 as at February 29, 2008, we expect that our combined cellular subscriber base in 2008 will increase at a lower pace than in previous years and that such increase will continue to be partly impacted by multiple-SIM card ownership and our continued expansion in the lower income segment of the Philippine wireless market.

The table below shows our cellular subscribers base as at December 31, 2007 and 2006:

	As at 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

Of our 30,041,030 subscribers as at December 31, 2007, prepaid subscribers accounted for approximately 99% while postpaid subscribers accounted for the remaining 1%. Our cellular prepaid subscriber base grew by 24% to 29,699,150 as at December 31, 2007 from 23,856,821 as at December 31, 2006, whereas our postpaid subscriber base increased by 7% to 341,880 as at December 31, 2007 from 318,563 as at December 31, 2006. Smart s prepaid and postpaid net subscriber activations totaled 3,114,882 and 23,317, respectively, in 2007, or a quarterly average addition of 778,721 prepaid and 5,829 postpaid subscribers. On the other hand, Piltel s prepaid subscribers increased by 39% to 9,701,826 as at December 31, 2007 from 6,974,379 as at December 31, 2006, or a quarterly average addition of 681,862 subscribers. Postpaid subscribers as at December 31, 2007 were higher than as at December 31, 2006 primarily due to increased net activations in the last two quarters of 2007.

Our quarterly net subscriber activations over the eight quarters in 2007 and 2006 are as follows:

	2007				2006			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Prepaid	1,301,154	1,615,246	1,148,283	1,777,646	486,009	1,553,570	450,553	1,238,146
Smart	880,281	1,050,678	763,257	420,666	111,987	851,326	131,486	643,525
Piltel	420,873	564,568	385,026	1,356,980	374,022	702,244	319,067	594,621
Postpaid	6,921	7,403	5,704	3,289	5,001	11,955	13,722	7,807
Total	1,308,075	1,622,649	1,153,987	1,780,935	491,010	1,565,525	464,275	1,245,953

Wireless Broadband, Satellite and Other Services

Our revenues from wireless broadband, satellite and other services consist mainly of rentals received for the lease of Mabuhay Satellite s transponders, wireless broadband service revenues from SBI, charges for ACeS Philippines services and service revenues from PLDT Global subsidiary s mobile virtual network operations. SBI offers a number of wireless broadband services and had 301,738 subscribers as at December 31, 2007.

Gross service 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. This increase was primarily due to the growth in our wireless broadband business resulting primarily from a continued growth in our wireless broadband subscriber base.

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 increased by Php790 million, or 39%, to Php2,800 million in 2007 as compared to Php2,010 million in 2006 primarily due to higher volume of cellular SIM-packs sold in 2007 partly offset by a lower volumes of postpaid and prepaid handsets sold and lower average revenues per cellular handset and cellular SIM-pack.

Foreign Exchange Gains Net

Our net wireless foreign exchange gains increased by Php927 million, or 54%, to Php2,649 million in 2007 as compared to Php1,722 million in 2006 primarily due to the effect of foreign exchange revaluation as a result of the higher level of peso appreciation to the U.S. dollar in 2007 as compared to 2006.

Interest Income

Our wireless interest income decreased by Php11 million, or 1%, to Php1,186 million in 2007 as compared to Php1,197 million in 2006 primarily due to lower interest rates.

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 Php46,759 million, a decrease of Php800 million, or 2%, from Php47,559 million in 2006. A significant portion of this decrease was attributable to lower financing costs and a decrease in asset impairment, compensation and benefits expense and cost of sales, partially offset by an increase in depreciation and amortization, professional and other contracted services, rent expense and selling and promotion expenses. As a percentage of our total wireless revenues, expenses associated with our wireless business decreased to 50% in 2007 from 57% in 2006.

Cellular business expenses accounted for 93% while wireless broadband, satellite and other business expenses accounted for 7% of our wireless business expenses in 2007, compared to 89% and 11%, respectively, in 2006.

The following table summarizes our 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	26	Php10,752	23	Php1,450	13
Rent	8,751	19	7,887	16	864	11
Compensation and benefits(1)	4,608	10	5,041	10	(433)	(9)
Costs of cellular handsets and SIM-packs sold	4,285	9	4,688	10	(403)	(9)
Selling and promotions	3,804	8	3,013	6	791	26
Repairs and maintenance	3,634	8	3,646	8	(12)	
Professional and other contracted services	2,369	5	1,779	4	590	33
Financing costs	2,299	5	4,658	10	(2,359)	(51)
Taxes and licenses	1,348	3	1,018	2	330	32
Communication, training and travel	1,083	2	891	2	192	22
Insurance and security services	783	2	797	2	(14)	(2)
Asset impairment	563	1	2,220	5	(1,657)	(75)
Cost of satellite air time	160		199		(39)	(20)
Amortization of intangible assets	158		312	1	(154)	(49)
Gain on derivative transactions	(278)		(39)		(239)	613
Other expenses	990	2	697	1	293	42
Total	Php46,759	100	Php47,559	100	(Php800)	(2)

(1) Includes salaries and employee 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 comprised mainly of transmission facilities, 2G, 3G and broadband networks, and broadband customer-deployed equipment. We expect our depreciation and amortization expenses to futher increase in line with our expected increase in capital expenditures in 2008. For further details, see *Note 8 Property, Plant and Equipment* to the accompanying audited consolidated financial statements in Item 18.

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 higher accrued LTIP costs in 2006 as a result of the early vesting of the LTIP in 2006, 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 long-term incentive plan, please see Item 6. Directors, Senior Management and Employees Long-Term Incentive Plan and *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Cost of cellular handsets and SIM-packs sold decreased by Php403 million, or 9%, to Php4,285 million primarily due to a decrease in the volume of phone kits sold.

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 costs 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 Php590 million, or 33%, to Php2,369 million primarily due to higher expenses for consultancy, contracted and technical services, market research and advisory fees in respect of investment evaluations in our cellular business.

We recognized financing costs of Php2,299 million in 2007, a decrease of Php2,359 million, or 51%, as compared to Php4,658 million in 2006 on account of lower accretion on financial liabilities due to the settlement of Piltel s debt in

2006 and lower dividend on convertible preferred stock that is subject to mandatory redemption due to lower level of outstanding convertible preferred stock as compared to 2006, partly offset by lower capitalized interest. The breakdown of our financing costs for our wireless business for the years ended December 31, 2007 and 2006 is as follows:

	2007	**2006**	**Change 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)
	Php2,299	Php4,658	(Php2,359)	(51)

Taxes and licenses increased by Php330 million, or 32%, to Php1,348 million primarily due to higher non-creditable input tax and the payment of previously disputed 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, and increased travel and training activities.

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.

Asset impairment decreased by Php1,657 million, or 75%, to Php563 million due to the recognition by Mabuhay Satellite in 2006 of an asset impairment charge as a result of the reduction in value of the Agila II satellite given the difficulty in generating cash flows with the satellite nearing its end-of-life and other events affecting its business and lower levels of impairment charge in 2007 for subscriber accounts receivables.

Cost of satellite air time decreased by Php39 million, or 20%, to Php160 million due to a reduction of satellite air time cost as a result of the continued appreciation of the Philippine peso in 2007. See *Note 22 Related Party Transactions* to the accompanying audited consolidated financial statements in Item 18.

Amortization of intangible assets decreased by Php154 million, or 49%, to Php158 million mainly due to the full amortization of intangible assets relating to technology application and customer lists, which were recognized following the acquisition of Wolfpac and SBI in November 2006 and August 2007, respectively.

Gain on derivative transactions increased by Php239 million, or 613%, to Php278 million primarily due to a Php270 million gain on US$ forward exchange contracts entered into by Smart in 2007 to hedge U.S. dollar-linked revenues and loan proceeds from an undrawn loan facility and an Php8 million gain on embedded derivatives. Gain of Php39 million in 2006 was on embedded derivatives relating to service and purchase contracts.

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 Php9,222 million, or 145%, to Php15,566 million in 2007 from Php6,344 million in 2006. In 2007, the effective tax rate for our wireless business was 33% as compared to 17% in 2006 mainly due to the recognition of deferred tax assets of Piltel in 2006 complemented by higher taxable income in 2007. We currently expect that our effective corporate tax rate will be at a similar level in 2008. Furthermore, while the National Internal Revenue Code provides that our regular income tax rate will be reduced to 30% effective January 1, 2009, there can be no assurance whether and when such reduction in the regular corporate income tax rate will be implemented.

Net Income

Our wireless business segment recorded a net income of Php31,780 million in 2007, an increase of Php1,653 million, or 5%, over Php30,127 million registered in 2006 on account of higher cellular revenues complemented by slightly lower expenses, partially offset by a higher provision for income tax.

Fixed Line

Total Revenues

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 Php56,797 million, a decrease of Php1,113 million, or 2%, from Php57,910 million in 2006. As a percentage of our total revenues, fixed line revenue decreased to 35% in 2007 from 39% in 2006.

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

	Years Ended December 31,					
					Increase (Decrease)	
	2007	**%**	**2006**	**%**	**Amount**	**%**
			(in millions)			
Fixed line services:						
Service Revenues						
Local exchange	Php16,205	29	Php16,963	29	(Php758)	(4)
International long distance	8,674	15	9,933	17	(1,259)	(13)
National long distance	6,338	11	6,921	12	(583)	(8)
Data and other network	15,921	28	13,725	24	2,196	16
Miscellaneous	1,413	2	1,632	3	(219)	(13)
	48,551	85	49,174	85	(623)	(1)
Non-Service Revenues						
Sale of computers	281		79		202	256
Foreign Exchange Gains Net	5,479	10	3,210	5	2,269	71
Interest Income	296	1	441	1	(145)	(33)
Other Income	2,190	4	5,006	9	(2,816)	(56)
Total Fixed Line Revenues	Php56,797	100	Php57,910	100	(Php1,113)	(2)

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of: (i) flat monthly fees for our postpaid and fixed charges for our bundled voice and data services; (ii) amortization of installation charges and other one-time fees associated with the establishment of customer service; (iii) revenues from usage of prepaid cards for calls within the local area and any unused peso value of expired prepaid cards; and (iv) 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 segment as at and for the years ended December 31, 2007 and 2006, respectively:

	Years Ended December 31,			
			Increase (Decrease)	
	2007	**2006**	**Amount**	**%**
Total local exchange service revenues (in millions)	Php16,205	Php16,963	(Php758)	(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

Revenues from our local exchange service decreased by Php758 million, or 4%, to Php16,205 million in 2007 from Php16,963 million in 2006. The decrease was primarily due to the appreciation of the Philippine peso which required us to make further downward adjustments in our monthly local service rates pursuant to the currency exchange rate adjustment mechanism authorized by the NTC as described in Item 4. Information on the Company Business Fixed Line Local Exchange Service Rates and the decrease in prepaid subscribers, partially offset by an increase in postpaid subscribers. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 33% in 2007 as compared to 35% in 2006.

As at December 31, 2007, postpaid and prepaid fixed line subscribers totaled 1,479,647 and 245,055, respectively, which accounted for approximately 86 % and 14 %, respectively, of our total fixed line subscribers.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of: (i) 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; (ii) access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and (iii) 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, respectively:

Years Ended December 31,

	2007	2006	Increase (Decrease) 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	7.4:1	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 appreciation of the Philippine peso and a decrease in average termination rates for inbound calls partially mitigated by an increase in inbound and outbound 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 primarily due to the appreciation of the Philippine peso to the U.S. dollar and a decrease in the average termination 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 the appreciation of the Philippine peso in 2007, which more than offset the increase in outbound international call volumes in 2007.

National Long Distance Service

Our national long distance service revenues consist of: (i) 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; (ii) access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and (iii) 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, respectively:

	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 lower average revenue per minute in 2007 as a result of 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,			
			Increase (Decrease)	
	2007	2006	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 recognized revenues of Php15,921 million, an increase of Php2,196 million, or 16%, from Php13,725 million in 2006. This increase was primarily due to increases in leased lines, IP-based and packet-based data services, particularly Diginet and DFON rental, a significant increase in the number of DSL broadband subscribers, which was partially offset by a decrease in the number of PLDT Vibe narrowband subscribers. IP-based products include *PLDT DSL* (*myDSL* and *BizDSL*), *PLDT Vibe* and I-Gate. The percentage contribution of this service segment to our fixed line service revenues increased to 33% in 2007 from 28% in 2006.

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 a significant increase in the number of subscribers, which was partially offset by lower average revenue per user as a result of launching lower plans as part of promotions. *DSL* reached 264,291 subscribers in 2007 compared with 133,159 subscribers in 2006.

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 our Vibe prepaid service. *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 our Vibe prepaid service may be partially attributable to the migration from Vibe dial-up to *DSL* which is now priced more competitively.

The continued growth in data services revenues steady demand for dedicated connectivity or private networking from the corporate market using PLDT s traditional international and domestic data services offerings.

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 an increase in Smart s DFON rental to Php5,565 million in 2007 from Php4,940 million in 2006.

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 an increase in subscriptions for DSL service that is bundled with computers and thus resulted in higher computer sales.

Foreign Exchange Gains Net

Our net fixed line foreign exchange gains increased by Php2,269 million, or 71%, to Php5,479 million in 2007 from Php3,210 million in 2006 primarily due to higher level of the appreciation of the Philippine peso to the U.S. dollar in 2007 as compared to 2006.

Interest Income

Interest income of our fixed line business segment decreased by Php145 million, or 33%, to Php296 million in 2007 from Php441 million in 2006 primarily due to lower interest rates.

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 recognition in 2006 of 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 AIL (please see *Note 2 Summary of Significant Accounting Policies and Practices* and *Note 22 Related Party Transactions* to the accompanying audited consolidated financial statements in Item 18 for further discussion).

Expenses

Expenses related to our fixed line business totaled Php45,920 million in 2007, a decrease of Php9,863 million, or 18%, as compared to Php55,783 million in 2006. This decrease was primarily due to lower loss on derivative transactions, depreciation and amortization, and financing costs, partially offset by higher professional and other contracted services, provisions, rent, repairs and maintenance and taxes and licenses.

The following table sets forth the breakdown of our total fixed line-related expenses for the years ended December 31, 2007 and 2006, respectively, 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	34	Php20,406	37	(Php4,929)	(24)
Compensation and employee benefits(1)	10,411	23	10,298	19	113	1
Financing costs	4,657	10	6,173	11	(1,516)	(25)
Repairs and maintenance	3,772	8	3,553	6	219	6
Loss on derivative transactions	3,335	7	8,346	15	(5,011)	(60)
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	3	(29)	(2)
Taxes and licenses	877	2	659	1	218	33
Provisions	666	1	38		628	1,653
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)
Asset impairment	43		54		(11)	(20)
Other expenses	399	1	695	1	(296)	(43)
Total	Php45,920	100	Php55,783	100	(Php9,863)	(18)

(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 the recognition in 2006 of additional depreciation charges on certain properties and equipment resulting from the accelerated pace of our NGN roll-out in 2006. In contrast, our NGN roll-out progressed at a significantly slower pace in 2007 and thereby resulted in a lower level of our depreciation and amortization charges in 2007. In 2007, as a result of such continued NGN roll-out, we recognized additional depreciation charges of Php734 million relating to Piltel s fixed line equipment that were also affected by our continuing network upgrade and expansion. We currently expect that the level of our amortization and depreciation charges in 2008 will continue to be impacted by, among other things, the pace of our NGN roll-out, which pace is influenced by, among other things, the condition of our property and equipment and general economic conditions.

Compensation and employee benefits expenses increased by Php113 million, or 1%, to Php10,411 million primarily due to an increase in pension benefits and costs associated with our MRP, and the effect of collective bargaining agreement-related increases in salaries and employee benefits, partially offset by lower LTIP costs. In 2006, we accrued higher LTIP costs as a result of the early vesting of the LTIP in 2006. 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 costs in 2007 and 2006 amounted to Php564 million and Php414 million, respectively. For further discussion on our LTIP, please see Item 6. Directors, Senior Management and Employees Long-Term Incentive Plan and *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Financing costs decreased by Php1,516 million, or 25%, to Php4,657 million largely due to lower interest on loans and related items and accretion of financial liabilities. This was partially offset by higher financing charges in relation to costs incurred in the consent solicitation of holders of our 11.375% Notes due 2012, 10.5% Notes due 2009 and 8.35% Notes due 2017, or the Notes, and the amendments of the covenants of our Notes, as discussed in *Note 18 Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements in Item 18. 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)
Accretion on financial liabilities net	185	206	(21)	(10)
Financing charges	184	14	170	1,214
Capitalized interest	(354)	(301)	(53)	18
	Php4,657	Php6,173	(Php1,516)	(25)

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

Loss on derivative transactions decreased by Php5,011 million, or 60%, to Php3,335 million primarily due to lower hedging costs and the effect of the appreciation of the peso against the U.S. dollar.

Rent expenses increased by Php220 million, or 14%, to Php1,799 million due to the settlement of pole rental charges and an increase in international leased circuit charges, partially offset by a decrease in transponder leases.

Professional and other contracted services increased by Php645 million, or 60%, to Php1,727 million primarily due to an increase in consultancy services 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 expenses.

Taxes and licenses increased by Php218 million, or 33%, to Php877 million mainly on account of higher business-related taxes. Please see *Note 25 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 for a further discussion.

Provisions increased by Php628 million to Php666 million primarily due to higher provision for assessments in 2007. Please see *Note 25 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 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 a 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 promotions and *WeRoam* subscriptions.

Asset impairment decreased by Php11 million, or 20%, to Php43 million mainly due to lower uncollectible receivables.

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

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php3,358 million in 2007 as compared to a benefit from income tax of Php639 million in 2006 primarily due to higher taxable income as a result of lower expenses primarily due to lower loss on derivative transactions, depreciation and amortization and financing costs recognized in 2007.

Net Income

In 2007, our fixed line business segment contributed a net income of Php7,519 million, an increase of Php4,753 million, or 172%, as compared to Php2,766 million in 2006 mainly as a result of an 18% decline in fixed line-related expenses, particularly lower loss on derivative transactions, depreciation and amortization and financing costs, partially offset by a 2% decrease in the revenues from our fixed line service and a higher provision for income tax.

Information and Communications Technology

Total Revenues

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

In 2007, our ICT business generated revenues of Php10,799 million, an increase of Php3,874 million, or 56%, from Php6,925 million in 2006. This increase was largely due to the effects of the full-year consolidation of the financial results of the SPi Group in 2007 and the continued increase of our customer interaction service revenues.

The following table summarizes our total revenues from our information and communications technology 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	49	Php2,374	34	Php2,887	122
Customer interaction services	3,262	30	2,624	38	638	24
Internet and online gaming	937	9	796	12	141	18

*Vitro*ä data center	595	5	543	8	52	10
	10,055	93	6,337	92	3,718	59
Non-service Revenues						
Point product sales	267	2	553	8	(286)	(52)
Foreign exchange loss net	(138)	(1)	(109)	(2)	(29)	27
Interest income	21		16		5	31
Other Income	594	6	128	2	466	364
Total ICT Revenues	Php10,799	100	Php6,925	100	Php3,874	56

Service Revenues

Service revenues generated by our ICT business 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 referred to as Business Process Outsourcing)

Knowledge processing solution revenues consist of: (i) editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry; (ii) digital content conversion services to information organizations; (iii) pre-press project management services to book publishers; (iv) litigation support services which involve conventional coding and electronic discovery support services for corporations, international law firms, corporate counsels and government agencies; (v) 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 (vi) 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 as a result of the effects of the full-year consolidation of the financial results of the SPi Group, 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: (i) inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents; (ii) outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and (iii) 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 and online gaming service revenues consist of: (i) revenues derived from actual usage of the internet access network by prepaid subscribers; (ii) monthly service fees from postpaid corporate and consumer subscribers; (iii) one-time fees generated from the reselling of internet-related solutions such as security solutions and domain registration; (iv) franchise and royalty fees for *Netopia* internet cafés; and (v) online gaming revenues from 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 effects of the full-year consolidation of the financial results of Level Up! which resulted in an increase in revenues by Php49 million, and an increase in Infocom s revenues by Php63 million due to additional revenues from our customer service outsourcing. 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: (i) 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; (ii)installation charges or one-time fees associated with the set-up of services and professional services of Vitro s certified professionals; and (iii) 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. This increase was 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 and Joint Ventures* to the accompanying audited consolidated financial statements in Item 18 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.

Foreign Exchange Loss Net

Our net ICT foreign exchange loss increased by Php29 million, or 27%, to Php138 million in 2007 from Php109 million in 2006 primarily due to the loss on revaluation of our net foreign currency-denominated assets.

Interest Income

Interest income for our ICT business segment increased by Php5 million, or 31%, to Php21 million in 2007 from Php16 million in 2006 primarily due to a higher level of cash balances in 2007.

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 recognition of cumulative dividends and interest on ePLDT s investment in convertible securities of Stradcom International Holdings, Inc., or SIHI. On February 28, 2008, SIHI redeemed all of the convertible securities of SIHI held by ePLDT. Please see *Note 13 Investment in Debt Securities* to the accompanying audited consolidated financial statements in Item 18 for further discussion of our investment in Stradcom.

Expenses

Expenses associated with our ICT business totaled Php11,010 million in 2007, an increase of Php3,736 million, or 51%, from Php7,274 million in 2006 primarily due to the effects of the full-year consolidation of the financial results of the SPi Group and Level Up! in 2007 resulting in an increase in compensation and employee benefits, professional and other contracted services, communication, training and travel, depreciation and amortization and asset impairment, partially offset by lower cost of sales and higher gain on derivative transactions. As a percentage of our total ICT revenues, expenses related to our ICT business were 102% and 105% for 2007 and 2006, respectively.

The following table shows the breakdown of our total information and communications technology-related expenses for the years ended December 31, 2007 and 2006, respectively, 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	50	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	711	6	492	7	219	45
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	7	(222)	(47)
Amortization of intangible assets	232	2	138	2	94	68
Financing costs	132	1	23		109	474
Taxes and licenses	94	1	70	1	24	34

Insurance and security services	49		35		14	40
Equity share in net losses of associates	11		52	1	(41)	(79)
Gain on derivative transactions	(138)	(1)	(3)		(135)	4,500
Other expenses	179	2	139	2	40	29
Total	Php11,010	100	Php7,274	100	Php3,736	51

____

(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-year 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 the full-year consolidation of the SPi Group and 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-year consolidation of the SPi Group in 2007.

Asset impairment increased by Php219 million, or 45%, to Php711 million mainly due to ePLDT s provision for impairment of goodwill mainly from an investment by SPi and Level Up! amounting to Php1,162 million, partially offset by a provision for impairment on notes receivable amounting to Php346 million in 2006 and the reversal in 2007 of an impairment loss of Php616 million related to our investment in SIHI. Please see *Note 13 Investment in Debt Securities* to the accompanying audited consolidated financial statements in Item 18 for further discussion of our investment in SIHI.

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 due to the full-year consolidation of the SPi Group in 2007.

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 full-year 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 audited consolidated financial statements in Item 18 for a further discussion.

Financing costs increased by Php109 million, or 474%, to Php132 million in 2007 primarily due to a higher accretion on financial liabilities particularly in relation to the contingent consideration for the Springfield acquisition in 2007.

Taxes and licenses increased by Php24 million, or 34%, to Php94 million primarily due to the full-year consolidation of the SPi Group in 2007 and the payment of previously disputed business-related taxes. Please see *Note 25 Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 18 for a further discussion.

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 a decrease in ePLDT s share in net losses of unconsolidated investee companies.

Gain on derivative transactions increased by Php135 million to Php138 million in 2007 primarily due to higher derivative gains recognized by our customer interaction service and knowledge processing solutions businesses as a result of the peso appreciation.

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!.

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. This decrease in net loss was mainly a result of the 56% increase in ICT-related revenues mainly from the full-year consolidation of the SPi Group and Level Up! and higher benefit from income tax in 2007, partially offset by the 51% increase in ICT-related expenses mainly from the full-year 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 our wireless, fixed line and ICT business segments. 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 expect to make additional investments in our core facilities to maximize existing technologies and increase capacity. Our 2008 budget for consolidated capital expenditures is approximately Php25,000 million, of which approximately Php15,000 million is budgeted to be spent by Smart, approximately Php9,000 million 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, capitalization and other selected financial data as at and for the years ended December 31, 2007 and 2006:

	Years Ended December 31, 2007	2006
	(in millions)	
Cash Flows		
Net cash provided by operating activities	Php77,418	Php69,211
Net cash used in investing activities	31,319	35,790
Capital expenditures	*24,824*	*20,674*
Net cash used in financing activities	44,819	45,900
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 finance 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	112,345	102,853
	Php174,496	Php185,406
Other Financial Data		
Total assets	Php240,158	Php241,904
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. Our principal sources of consolidated cash and cash equivalents in 2007 were cash flows from operating activities amounting to Php77,418 million, drawings from Smart s, PLDT s and ePLDT s debt facilities aggregating Php7,647 million and short-term credit facilities totaling Php502 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.

Principal sources of consolidated cash and cash equivalents in 2006 were cash flows from operations amounting to Php69,211 million, drawings from long-term and short-term credit facilities totaling Php9,724 million and Php211 million, respectively, and equity funds raised through the issuance of capital stock amounting to Php66 million in 2006. These funds were used principally for capital outlays of Php20,674 million (including capitalized interest of Php549 million), payments of long-term and short-term debt totaling Php29,366 million and interest payments of Php7,528 million.

Operating Activities

Our consolidated net cash flows from operating activities in 2007 increased by Php8,207 million, or 12%, to Php77,418 million from Php69,211 million in 2006.

A growing portion of our consolidated cash flow continues to be generated by our wireless business, which accounted for 58% and 56% of our total revenues in 2007 and 2006, respectively. Revenues from our fixed line and information and communications technology services accounted for 35% and 7%, respectively, of our total revenues in 2007 and 39% and 5% in 2006, respectively.

Cash flows from operating activities of our wireless business amounted to Php49,616 million in 2007, an increase of Php12,331 million, or 33%, compared to Php37,285 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 higher level of settlement of various payables in 2006. However, cash flows from operating activities of our fixed line business decreased by Php5,151 million, or 17%, to Php25,274 million in 2007 compared to Php30,425 million in 2006. This decrease was primarily due to higher working capital requirements in our fixed line business in 2007 due to PLDT s contribution to its pension plan and the settlement of our LTIP in 2006 and lower collection of receivables. The overall increase in our cash flows 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 satisfy our current liabilities as our current ratio is more than 1:1 as at December 31, 2007.

Prior to April 2006, under restrictive covenants in certain of its loan facilities, Smart was required to obtain, and since 2002 had obtained, waivers from Finnvera and certain of its lenders for all dividend payments made by Smart to

PLDT. Due to the repayment of all loan facilities by April 2006 that contained covenants restricting Smart s 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 is no longer subject to such restrictions. 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%, from Php35,790 million in 2006. This decrease was primarily a net result of a decrease in investments by Php8,602 million in 2007 due to the acquisitions of 100% equity interests in SPi and CyMed in 2006, partially offset by an increase in capital expenditures of Php4,150 million in 2007. 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 Blue Ocean Wireless, respectively. Net cash used in investing activities amounted to Php35,790 million in 2006 primarily comprised of capital expenditures in the amount of Php20,674 million, and payments for purchase of investments in the amount of Php10,890 million in relation to the purchase of the following in 2006: (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 Php383 million; (d) and the acquisition of the remaining 20% equity in Wolfpac for Php30 million.

Our consolidated capital expenditures in 2007 totaled Php24,824 million, an increase by 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. Our consolidated capital expenditures in 2006 totaled Php20,674 million. Smart's capital spending of Php10,506 million in 2006 was used primarily to rollout its 3G network, further upgrade its core and transmission network facilities and expand its wireless broadband facilities, to increase capacity and coverage in respect of basic and advanced wireless services. PLDT's capital spending of Php8,902 million was principally used to finance the expansion of its fixed line data and IP-based network services. ePLDT and its subsidiaries capital spending of Php1,132 million was primarily used to fund its continued customer interaction service expansion. The balance represented other subsidiaries capital spending.

As part of our growth strategy, we may from time to time, continue to make acquisitions and investments in companies or businesses.

Financing Activities

On a consolidated basis, we used net cash of Php44,819 million for financing activities in 2007, compared to Php45,900 million in 2006. The net cash used in financing activities in 2007 was mainly utilized for dividend payments distributed to PLDT common and preferred stockholders, debt repayments and interest payments. The net cash used in financing activities in 2006 was mainly utilized for debt repayments, dividend payments distributed by PLDT to its common and preferred stockholders and interest payments by PLDT and Piltel in line with their debt reduction programs.

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 Php12,505 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 our efforts to reduce our overall debt level, and also due to the appreciation of the Philippine 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 compared to the levels in 2006.

In 2007, we conducted a consent solicitation of holders of our 11.375% Notes due 2012, 10.5% Notes due 2009 and 8.35% Notes due 2017, or the Notes, in respect of amendments to the terms of the Notes that 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. These amendments to the terms of the Notes became effective on December 3, 2007, the date on which PLDT made the applicable consent payments, after holders of more than 51% of the aggregate principal amount of the Notes gave their consents for these amendments to the terms of the Notes prior to the expiration of the consent solicitation period and after the execution of relevant amendments to the indentures governing the Notes on November 21, 2007.

On May 22, 2007, PLDT entered into 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 respect of a loan agreement relating to PLDT s borrowing of Php1,270 million in the form of peso fixed rate corporate bonds, which were repaid on June 12, 2007. Both refinancing 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 have primarily been 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 more detailed discussion of our long-term debt including the scheduled maturities of our outstanding consolidated long-term debt as at December 31, 2007, see *Note 18 Interest-bearing Financial Liabilities Long-term Debt* to the accompanying audited consolidated financial statements in Item 18.

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 PFRS, 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. Furthermore, certain of PLDT s debt instruments contain provisions pursuant to which PLDT may be required to repurchase or prepay certain indebtedness in case of a change in control of PLDT.

Please see *Note 18 Interest-bearing Financial Liabilities Debt Covenants* to the accompanying audited consolidated financial statements in Item 18 for a detailed discussion of our debt 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 lower 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 cash dividend of Php40 per share attributable to our 2006 earnings. This special cash dividend was 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. With respect to our 2007 earnings, in addition to the Php60 per share dividend declared on 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, in the aggregate representing close to a 100% of our 2007 earnings per share.

Cash dividend payments in 2007 amounted to Php28,470 million, of which Php28,167 million and Php303 million were paid to common and preferred shareholders, respectively. Cash dividend payments in 2006 amounted to Php14,913 million, of which Php14,447 million and Php466 million were paid to common and preferred shareholders, respectively.

For further details in respect of our dividend declarations and payments, please refer to Item 3. Key Information Dividends Declared and Item 3. Key Information Dividends Paid .

PLDT raised Php73 million and Php62 million from the exercise by certain officers and executives of stock options in 2007 and 2006, respectively. In addition, through our subscriber investment plan which provides postpaid fixed line subscribers the opportunity to buy shares of our 10% cumulative convertible preferred stock as part of the upfront payments collected from subscribers, PLDT was able to raise Php3 million and Php4 million in 2007 and 2006, respectively.

As at December 31, 2007, there were 188.7 million PLDT common shares outstanding compared to 188.4 million common shares outstanding as at December 31, 2006. See *Note 17 Equity* to the accompanying audited consolidated financial statements in Item 18 for further discussion.

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	Positive
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 March 19, 2008, Moody s affirmed our local currency rating and changed its outlook from stable to positive at the same time affirming our foreign currency bond Ba2 rating with a positive outlook. The rating action reflects our ability to achieve ongoing revenue growth and fund high levels of capital expenditures internally, as well as the ability to increase dividend payments to our shareholders. 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 the Notes 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 Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have any current or future effect on our financial position, results of operations, cash flows, changes in stockholders equity, liquidity, capital expenditures or capital resources that are material to investors.

Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table shows our contractual obligations as at December 31, 2007:

		Payments Due by Period			
	Total	**Less than 1 year**	**1-3 years**	**3-5 Years**	**More than 5 years**
			(in millions)		
December 31, 2007					
Long-term debt(1):	*Php86,334*	*Php11,441*	*Php22,662*	*Php21,218*	*Php31,013*
Principal	64,619	6,872	15,883	16,267	25,597
Interest	21,715	4,569	6,779	4,951	5,416
Lease obligations:	*6,554*	*2,992*	*1,515*	*1,040*	*1,007*
Operating lease	5,614	2,067	1,500	1,040	1,007
Finance lease	940	925	15		
Unconditional purchase obligations(2)	*776*	*113*	*41*	*249*	*373*
Other obligations:	*49,488*	*28,023*	*10,835*	*4,294*	*6,336*
Mandatory conversion and purchase of shares	1,070	1,070			
Derivative financial liabilities(3):	11,638	8	2,938	4,240	4,452
Long-term currency swaps	11,170		2,527	4,191	4,452
Long-term foreign currency options	318		318		
Interest rate swap	142		93	49	
Forward foreign exchange contracts	8	8			
Various trade and other obligations:	36,780	26,945	7,897	54	1,884
Suppliers and contractors	16,371	8,816	7,555		
Utilities and related expenses	10,532	10,453	75	4	
Employee benefits	2,778	2,778			
Customers deposits	2,201		267	50	1,884
Carriers	2,187	2,187			
Dividends	1,071	1,071			
Others	1,640	1,640			
Total contractual obligations	**Php143,152**	**Php42,569**	**Php35,053**	**Php26,800**	**Php38,729**

(1) Before deducting unamortized debt discount and debt issuance costs.

(2) Based on the Amended ATPA with AIL.

(3) Gross liabilities before any offsetting application.

For a detailed discussion of our contractual obligations, please see *Note 24 Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 18.

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.

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.

Item 6. Directors, Senior Management and Employees

Directors, Key Officers and Advisors

The following are the names, ages and periods of service, of the current directors/independent directors of PLDT, all of whom, except for Mr. Takashi Ooi, had been nominated for re-election and were re-elected at the annual meeting of shareholders that was held on June 12, 2007:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	61	November 24, 1998 to present
Napoleon L. Nazareno	58	November 24, 1998 to present
Helen Y. Dee	63	June 18, 1986 to present
Ray C. Espinosa	51	November 24, 1998 to present
Tatsu Kono	54	March 28, 2006 to present
Rev. Fr. Bienvenido F. Nebres, S.J.*	67	November 24, 1998 to present
Takashi Ooi(1)	46	November 6, 2007 to present
Corazon S. de la Paz-Bernardo	66	September 25, 2001 to present
Oscar S. Reyes*	61	April 5, 2005 to present
Albert F. del Rosario	68	November 24, 1998 to present
Pedro E. Roxas*	51	March 1, 2001 to present
Alfred V. Ty*	40	June 13, 2006 to present
Ma. Lourdes C. Rausa-Chan	54	March 6, 2007 to present

** Independent Director*

(1) Mr. Takashi Ooi replaced Mr. Tsuyoshi Kawashima (who served as director from July 11, 2006 until his resignation effective November 5, 2007), as director effective November 6, 2007 and will serve as such for the unexpired term of Mr. Kawashima.

-

The names, ages, positions and periods of service of the key officers and advisors of PLDT as at February 29, 2008 are as follows:

Name	Age	Position(s)	Period during which individual has served as such
Manuel V. Pangilinan	61	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno	58	President and Chief Executive Officer	February 19, 2004 to present
		President and Chief Executive Officer of Smart	January 2006 to present
Ernesto R. Alberto	46	Senior Vice President	May 15, 2003 to present
		Corporate Business Head	May 15, 2003 to January 31, 2008
		Customer Sales and Marketing Group Head	February 1, 2008 to present
Rene G. Bañez	52	Senior Vice President	January 25, 2005 to present
		Chief Governance Officer	October 5, 2004 to March 3, 2008
		Administration and Materials Management Group Head	January 1, 2008 to present
Anabelle L. Chua	47	Senior Vice President	February 26, 2002 to present
		Treasurer	February 1, 1999 to present
		Corporate Finance and Treasury Head	March 1, 1998 to present
		Smart Chief Financial Officer	December 1, 2005 to present
Jun R. Florencio	52	Senior Vice President	June 14, 2005 to present
		Audit and Assurance Head	September 1, 2000 to February 15, 2006
		Internal Audit and Fraud Risk Management Head	February 16, 2006 to present
Menardo G. Jimenez, Jr.	44	Senior Vice President	December 9, 2004 to present
		Corporate Communications and Public Affairs Head	December 1, 2001 to June 15, 2004
		Retail Business Head	June 16, 2004 to December 31, 2007
		Business Transformation Office	January 1, 2008 to present
George N. Lim	55	Senior Vice President	February 26, 1999 to present
		Network Services Group Head	February 1, 2003 to December 31, 2007
		Business Transformation Office	January 1, 2008 to present
Alfredo S. Panlilio	44	Senior Vice President	May 8, 2001 to present
		International and Carrier Business Group Head	February 1, 2003 to June 15, 2004
		PLDT Global Corp. President	June 16, 2004 to present
Claro Carmelo P. Ramirez	47	Senior Vice President	July 1, 1999 to present
		Retail Business Group Head	February 1, 2003 to June 15, 2004
		International and Carrier Business Group Head	June 16, 2004 to December 4, 2005
		Consumer Affairs Group Head	

			December 5, 2005 to December 31, 2007
		Office of the President	January 1, 2008 to present
Ma. Lourdes C. Rausa-Chan	54	Senior Vice President	January 5, 1999 to present
		Corporate Secretary	November 24, 1998 to present
		Corporate Affairs and Legal Services Head	July 5, 1999 to present
		Chief Governance Officer	March 4, 2008 to present
Victorico P. Vargas	56	Senior Vice President	February 15, 2000 to present
		Human Resources Group Head	February 15, 2000 to present
		International and Carrier Business Head	March 1, 2007 to December 31, 2007
		Business Transformation Office Head	January 1, 2008 to present
June Cheryl A. Cabal-Furigay	34	Vice President	June 14, 2005 to present
		Financial Reporting and Planning Head	May 1, 2002 to November 15, 2006
		Financial Reporting and Controllership Head	November 16, 2006 to present
Christopher H. Young	50	Chief Financial Advisor	November 24, 1998 to present
Rolando G. Peña	45	Network Services Head of Smart	September 1, 1994 to present
		Customer Service Assurance Group Head	January 1, 2008 to present
Ramoncito S. Fernandez	55	Administration and Materials Management Head of Smart	June 6, 2000 to present
		International and Carrier Business and Global Access Head	January 1, 2008 to present
Danilo J. Mojica	47	Wireless Consumer Head of Smart	June 1, 2006 to present

Under the Shareholders Agreement entered into among First Pacific and certain of its affiliates, or the FP Parties, NTT Communications and NTTC-UK on September 28, 1999, as amended by the Cooperation Agreement dated January 31, 2006, NTT Communications is entitled to nominate two directors to the PLDT board of directors and the FP Parties are entitled to nominate six directors. The Shareholders Agreement also entitles NTT Communications to nominate two directors to the board of directors of Smart and, subject to specified conditions, one member to the board of directors of all other PLDT subsidiaries. However, as a result of the Cooperation Agreement, in respect of NTT Communications right to nominate two directors to each of the board of directors of PLDT and Smart, respectively, NTT Communications and the FP Parties agreed to vote as a PLDT shareholder, lobby the directors of PLDT and otherwise use reasonable efforts to procure a shareholders vote in favor of replacing on each of the board of directors of PLDT and Smart, respectively, one NTT Communications nominee with one NTT DoCoMo nominee. Under the Shareholders Agreement, NTT Communications is also entitled to appoint members or advisors of certain PLDT management and board committees, including the audit, governance and nomination, executive compensation and technology strategy committees described below under Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees, and as a result of the Cooperation Agreement, the FP Parties and NTT Communications agreed to use reasonable efforts to procure that NTT DoCoMo be entitled to appoint one individual, who may be replaced at any time, to attend any board committee of PLDT as a member, advisor or observer. Moreover, the Cooperation Agreement provides that upon NTT Communications, NTT DoCoMo and their subsidiaries owning in the aggregate 20% or more of the shares of PLDT s common stock and for as long as NTT Communications, NTT DoCoMo and their subsidiaries continue to own in the aggregate 17.5% of the shares of PLDT s common stock then outstanding, NTT DoCoMo will be entitled to additional rights under the Strategic Agreement and the Shareholders Agreement, including the right to nominate one additional NTT DoCoMo nominee to the board of directors of each of PLDT and Smart. Pursuant to public filings made with the U.S. SEC by NTT

Communications and NTT DoCoMo, as at January 30, 2008, NTT Communications and NTT DoCoMo together beneficially owned 20.70% of the outstanding shares of PLDT s common stock. As a result, NTT DoCoMo is currently entitled to nominate one additional NTT DoCoMO nominee to the board of directors of each of PLDT and Smart. Under the Shareholders Agreement and the Cooperation Agreement, each party has agreed, under certain circumstances, to vote its shares of common stock in favor of the nominees designated by the other parties. For more information about the Cooperation Agreement, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

The business address of Rolando G. Peña, Ramoncito S. Fernandez and Danilo J. Mojica is Smart Tower II, Ayala Avenue, Makati City, Philippines. The business address of each of the other directors, key officers and advisors identified above is the Ramon Cojuangco Building, Makati Avenue, Makati City , Philippines.

The following is a brief description of the business experience during the past five years of each of our directors, key officers and advisors.

Mr. Manuel V. Pangilinan assumed the chairmanship of the board of directors of PLDT in February 2004 after serving as its president and chief executive officer for over five years from November 1998 to February 2004. He also serves as chairman of Smart, Piltel, ePLDT, Metro Pacific Investment Corporation and Landco Pacific Corporation, as well as chairman of the governance and nomination and technology strategy committees of PLDT. Mr. Pangilinan founded First Pacific in 1981 and was appointed as executive chairman until June 2003, when he was named chief executive officer and managing director of First Pacific. He also holds the position of president commissioner of P. T. Indofood Sukses Makmur Tbk, the largest food company in Indonesia. Mr. Pangilinan is also a member of the board of overseers of the Wharton School of Finance & Commerce, University of Pennsylvania and is chairman of the board of trustees of Ateneo de Manila University. He was recently appointed by the Office of the President of the Philippines to the Board of the Regents of the University of the Philippines. He also serves as chairman of Medical Doctors Inc. (which operates the Makati Medical Center), the Hong Kong Bayanihan Trust and the Philippine Business for Social Progress. Mr. Pangilinan has received numerous prestigious awards including the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Finance (1983), the Presidential Pamana ng Pilipino Award by the Office of the President of the Philippines (1996), an Honorary Doctorate in Humanities by the San Beda College (2002), Best CEO in the Philippines by Institutional Investor (2004), CEO of the Year (Philippines) by Biz News Asia (2004), People of the Year by People Asia Magazine (2004), Distinguished World Class Businessman Award by the Association of Makati Industries, Inc. (2005), Order of Lakandula (Rank of a Komandante) by the Office of the President of the Philippines (2006), and an Honorary Doctorate in Humanities by the Xavier University (2007). Recently, he was voted as Corporate Executive Officer of the Year (Philippines) at the 2007 Best-Managed Companies and Corporate Governance Polls conducted by Asia Money. Mr. Pangilinan graduated cum laude from the Ateneo de Manila University, with a Bachelor of Arts degree in Economics. He received his Master s degree in Business Administration from the Wharton School of Finance and Commerce, University of Pennsylvania.

Mr. Napoleon L. Nazareno was appointed as president and chief executive officer of PLDT on February 19, 2004 and is concurrently the president and chief executive officer of Smart and Piltel, positions he has held since January 2000 and November 2004, respectively. He also serves as president of ACeS Philippines and chairman of Wolfpac, SBI, I-Contacts and Mabuhay Satellite. He also serves as a member of the technology strategy committee of PLDT.

Mr. Nazareno s business experience spans over 30 years and cuts across a broad range of industries, namely, packaging, bottling, petrochemicals, real estate and, in the last decade, telecommunications and information technologies. In 1981, he started a successful career in the international firm Akerlund & Rausing, occupying senior management to top level positions and, in 1989, became the president and chief executive officer of Akerlund & Rausing (Philippines), Inc. In August 1995, he moved to Metro Pacific Corporation where he served as president and chief executive officer until December 1999.

In November 2004, Mr. Nazareno was appointed by President Gloria Macapagal-Arroyo as Private Sector Representative of the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. He was voted Corporate Executive Officer of the Year in the Philippines for three consecutive years in the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by *AsiaMoney*.

Mr. Nazareno received his Master s degree in Business Management from the Asian Institute of Management and completed the INSEAD Executive Program of the European Institute of Business Administration in Fountainbleu, France.

Ms. Helen Y. Dee is the chairman and president and/or chief executive officer of Hydee Management & Resources, Inc., House of Investments, Inc., Tameena Resources, Inc., Grepalife Asset Management Corporation and Grepalife Fixed Income Fund Corporation. She is also chairman of Malayan Insurance Company, Rizal Commercial Banking Corporation, Landev Corporation, Manila Memorial Park, Inc., Mapua Information Technology Center, Inc. and Hi-Eisai Pharmaceuticals, Inc. and the vice-chairman of Pan Malayan Management and Investment Corporation. She is the president of Moira Management, Inc. and YGC Corporate Services, Inc. She sits on the boards of EEI Corporation, Petro Energy Resources Corp., Nippon Life Insurance Co., South Western Cement Corp., Seafront Resources Corp., Malayan Insurance Co. Inc., MICO Equities, Inc., Hermoza Ecozone Development Corporation, La Funeraria Paz, Inc., Honda Cars Philippines, Inc. and Isuzu Philippines, Inc. Ms. Dee received her Master s degree in Business Administration from De La Salle University.

Atty. Ray C. Espinosa is the president of ePLDT and the chairman of ePLDT subsidiaries Parlance, Vocativ, ePLDT Ventus, SPi, Infocom, Digital Paradise, Airborne Access and Level Up!. He also serves as a member of the technology strategy committee. He is a member of the boards of Cyber Bay Corporation, Nation Broadcasting Corporation, Lepanto Consolidated Mining Co., Mediaquest Holdings, Inc., Metro Pacific Resources, Inc., PTIC and several other companies. He is vice-chairman of the PLDT Beneficial Trust Fund. Until June 30, 2000, he was a partner and member of the Executive Committee of the law firm SyCip Salazar Hernandez & Gatmaitan. Mr. Espinosa received his Master s of Laws degree from the University of Michigan Law School.

Mr. Tatsu Kono is the managing director of the corporate sales department, corporate marketing division of NTT DoCoMo. He joined NTT DoCoMo in 2000 and served as executive director of the global investment group, global business department. Prior to that, he occupied various positions in Kokusai Denshin Denwa Co., Ltd., or KDD, and became the general manager of the Sales Promotion Department in 1989, the managing director of the Kyoto Sales Office in 1990 and the managing director of the Tokyo Sales Office in 1998. He serves as an advisor to the audit committee and a member of each of the governance and nomination, executive compensation and technology strategy committees of PLDT. Mr. Kono received his Bachelor of Law degree from Waseda University.

Rev. Fr. Bienvenido F. Nebres, S.J. has been a director of PLDT since November 24, 1998. He is the chairman of the audit committee and a member of the governance and nomination committee of PLDT. He is the president and a member of the board of trustees of the Ateneo de Manila University and the vice chairman of the board of trustees of the Asian Institute of Management. He is also a member of the board of trustees of the Manila Observatory, Philippine Institute of Pure and Applied Chemistry and several private educational institutions including Georgetown University, Regis University, Assumption College, Stonyhurst School and Sacred Heart School Jesuit Cebu City. Rev. Fr. Nebres received his Ph.D in Mathematics from Stanford University.

Mr. Takashi Ooi has been a director of PLDT since November 6, 2007. He built his career in NTT and its subsidiaries NTT Communications and NTT America. He is presently the vice president for network integration and solutions, global business division of NTT Com, and is responsible for product/service development and proposal/installation/delivery of global network for global multi-national companies. From March 2001 to June 2006, he was vice president for product management, global business division of NTT Com. He served as director of NTT America and technical advisor to Teligent, Inc. from November 1997 to February 2001. Prior to that, he held managerial positions in various departments of NTT Com. Mr. Ooi obtained his Master s of Science degree in Physics from the University of Tokyo and his Master s of Business Administration degree from Boston University.

Ms. Corazon S. de la Paz-Bernardo has been a director of PLDT since September 25, 2001. She is the vice chairman of the Social Security Commission, the president and chief executive officer of the Social Security System and the vice chairman of Banco de Oro Unibank, Inc. She is an advisor to the audit committee of PLDT. She has been re-elected president of the International Social Security Association, an association based in Geneva, Switzerland, to serve as such for a second consecutive three-year term commencing in September 2007. Until June 2001, she was the chairman and senior partner of Joaquin Cunanan & Co., a member firm of PricewaterhouseCoopers Worldwide. She is a director of San Miguel Corporation, Ayala Land, Inc., Philippine Health Insurance Corporation, Philex Mining Corporation, Philex Gold, Inc., Republic Glass Holding Corp., Equitable Card Network, Inc., and Ionics Circuits, Inc. Ms. De la Paz-Bernardo is a certified public accountant and received her Master s degree in Business Administration from Cornell University.

Mr. Oscar S. Reyes has been a director of PLDT since April 5, 2005 and an independent director of Smart. He serves as a member of each of the audit, governance and nomination, executive compensation and technology strategy committees of PLDT. He is the chairman of Link Edge, Inc. and MRL Gold Phils. Inc. He is also director in various public companies and private firms engaged in banking, insurance, financial and business advisory services, beverages, electrical products manufacturing, mining and a water distribution utility. These include the Bank of the Philippine Island, Mutual Fund Co. of the Philippines, Sun Life of Canada (Phils.) Inc., Sun Life Prosperity Dollar Advantage and Dollar Abundance Fund, Inc., Sun Life Financial Plans, Inc., Pepsi Cola Products Phils. Inc., First Philippine Electric Co., Basic Energy Corp., Mindoro Resources Ltd., in one archipelago mineral, Inc., and Manila Water Corporation. He was the country chairman of the Shell Companies in the Philippines from 1997 to 2001 and concurrently the Managing Director of Shell Philippines Exploration B.V. until 2002. From 2002 to 2004, he was the senior management adviser of Shell Philippines Exploration B.V. and the CEO adviser of Pilipinas Shell Petroleum Corporation. Mr. Reyes completed the Master s in Business Administration program of the Ateneo Graduate School of Business and the Program in Management Development of the Harvard Business School, and holds a degree in International Business from Waterloos University.

Mr. Albert F. del Rosario has been a director of PLDT since November 24, 1998. He is also the chairman of the board of trustees of the PLDT Beneficial Trust Fund and the executive compensation committee of the board of directors of PLDT. He is the chairman of the board of Gotuaco del Rosario and Associates, Inc., Philippine Indocoil Corporation, Business World Publishing Corporation, and Stratbase, Inc., the vice chairman of the board of Asia Insurance (Philippines) Corporation and the president of ADR Holdings, Inc., ARS Reinsurance Brokers, Inc., and Philippine Telecommunications Investment Corporation. From 2001 to 2006, he served as the Ambassador Plenipotentiary and Extraordinary of the Republic of the Philippines to the United States of America. Mr. del Rosario also sits on the boards of Infrontier (Philippines) Inc., LMG Chemicals Corporation, Six Harmonies Holdings, Inc., Landco Pacific Corporation and Metro Pacific Investments Corporation. Mr. del Rosario received his Bachelor of Science degree in Economics from New York University.

Mr. Pedro E. Roxas has been a director of PLDT since March 1, 2001. He serves as a member of the audit and executive compensation committee of the board of directors of PLDT. He is the chairman and/or president and chief executive officer of various business organizations in the fields of agri-business, sugar manufacturing and real estate development, including Roxas Holdings Inc., CADP Group Corp., Roxaco Land Corporation, Roxas and Company, Inc. and Fuego Land Corporation. He is also a director of Banco de Oro Private Bank. Mr. Roxas received his Bachelor of Science degree in Business Administration from the University of Notre Dame.

Mr. Alfred V. Ty has been a director of PLDT since June 13, 2006. He is a member of the governance and nomination and executive compensation committees of the board of directors of PLDT. He is the chairman of Asia Pacific Top Management International Resources Corporation, vice chairman of Toyota Motor Philippines Corporation, the president of Federalland, Inc. and the corporate secretary of Metropolitan Bank and Trust Corporation.

Atty. Ma. Lourdes C. Rausa-Chan has been a director of PLDT since March 6, 2007. She is senior vice president for corporate affairs and legal services and the general counsel and corporate secretary of PLDT. She also serves as corporate secretary of several subsidiaries of PLDT. In March 2008, she was appointed as chief governance officer of PLDT and a non-voting member of the governance and nomination committee of the board of directors of PLDT. Prior to joining PLDT in November 1998, she was the group vice president for legal affairs of Metro Pacific Corporation for 11 years. She obtained her Bachelor of Arts and Bachelor of Laws degrees from the University of the Philippines.

Mr. Ernesto R. Alberto is a senior vice president of PLDT. He was appointed in February 2008 as head of our customer sales and marketing group which was created to consolidate and synchronize all revenue generation relationship initiatives of PLDT, including product/market development, product management, marketing, sales and distribution, and customer relationship management. He was the corporate business head of PLDT from May 2003 until January 31, 2008. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development. Prior to joining PLDT in 2003, he was a vice president and head of the national corporate group of Citibank N.A., Manila from 1996 to May 2003. He previously served as vice president and head of the relationship management group of Citytrust Banking Corporation. Mr. Alberto holds directorships in certain subsidiaries of PLDT.

Mr. Rene G. Bañez is a senior vice president of PLDT. He was appointed as administration and materials management group head in January 2008. He was the chief governance officer of PLDT from October 5, 2004 to March 3, 2008, a non-voting member of the governance and nomination committee until March 28, 2008 and was the head of the support services and tax management group of PLDT from January 1999 to January 2001. He served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to joining PLDT, he was the group vice president for tax affairs of Metro Pacific Corporation for 3 years until December 1998.

Ms. Anabelle L. Chua is the treasurer of PLDT and a senior vice president. She concurrently holds the position of chief financial officer of Smart. She holds directorships in several subsidiaries and affiliates of PLDT, is a member of the board of trustees of the PLDT Beneficial Trust Fund, and a director of Philippine Telecommunications Investment Corporation and the PSE. She was a vice president at Citibank, N.A. where she worked for 10 years prior to joining PLDT in 1998. She has over 15 years of work experience in the areas of corporate finance, treasury, financial control and credit risk management.

Mr. Jun R. Florencio is a senior vice president for PLDT s internal audit and fraud risk management group. He has over 20 years of work experience in the areas of external and internal audit, credit management, information technology, financial management, and controllership. He joined the Company in April 1999 and, prior to his present position, served as the financial reporting and control head up to March 2000. He previously held various positions in the finance organization of Eastern Telecommunications and was the financial controller of Smart for 4 years until March 1999.

Mr. Menardo G. Jimenez, Jr. is a senior vice president. He was appointed as business transformation office lead for revenue composition workstream in January 2008. He was the retail business head from June 2004 to December 31, 2007. He previously worked at GMA Network, Inc., where he served as head of a creative services and network promotions, during which he produced a number of international award-winning campaigns for said company and its radio and television programs. In 2005, he won the first CEO Excel Award (Communications Excellence in Organizations) given by the International Association of Business Communicators mainly for effectively using communication strategies in managing the PLDT retail business team to meet its targets and achieve new heights in the fixed line business. In 2006, his further achievements in handling the retail business of PLDT and his work at Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year.

Mr. George N. Lim is a senior vice president. He was appointed as business transformation office lead for network workstream in January 2008. He was the network services head from February 2003 to December 2007. He served as head of network development and provisioning from February 1999 to January 2003 and as head of marketing from

December 1993 to February 1999. Mr. Lim holds directorships in certain subsidiaries of PLDT.

Mr. Alfredo S. Panlilio is a senior vice president. He has over 15 years of work experience in the fields of business development and information technology. He was the corporate business head from August 2000 to May 2003 and international carrier business head from May 2003 to June 2004. Prior to joining PLDT in July 1999, he held management positions at IBM Philippines, Inc. and was the vice president for business development of the Lopez Communications Group (ABS-CBN Broadcasting, BayanTel and Sky Cable) until June 1999. Mr. Panlilio holds directorships in certain subsidiaries of PLDT and PLDT Global Corporation.

Mr. Claro Carmelo P. Ramirez is a senior vice president. He has over 20 years of work experience in the field of marketing. He worked as associate director for Colgate Palmolive Company, Global Business development in New York, and as marketing director for Colgate Palmolive Argentina, S.A.I.C. Prior to joining PLDT in July 1999, he was the marketing director of Colgate Palmolive Philippines, Inc. Mr. Ramirez also holds directorships in certain subsidiaries of PLDT.

Mr. Victorico P. Vargas is a senior vice president. He was appointed as business transformation office head in January 2008 in addition to his functions as human resources group head, to lead the business transformation initiatives of PLDT. He has over 20 years of work experience in various industries including insurance, consumer goods, real estate, banking and finance, telecommunications/information technology. Prior to joining PLDT in February 2000, he served as the country human resources director of Citibank N.A., Manila and spent two years outside the Philippines as country human resources director of Citibank, N.A., Bangkok. He also serves as a non-voting member of the governance and nomination and executive compensation committees of PLDT. Mr. Vargas is a director of certain subsidiaries of PLDT.

Ms. June Cheryl A. Cabal-Furigay is a vice president. She joined PLDT in June 2000 as an executive trainee in the finance group, then served as an executive assistant to the corporate finance and treasury sector head from December 2000 to April 2002. Prior to her present position, she was the head of financial reporting and planning center. From 1993 to 1997, she was a senior associate in the business audit and advisory group of Sycip Gorres Velayo & Co. She is a director and the treasurer of certain subsidiaries of PLDT and the PLDT-Smart Foundation, Inc.

Mr. Christopher H. Young is our chief financial advisor. He worked in PricewaterhouseCoopers in London and Hong Kong from 1979 until 1987, at which time he joined First Pacific in Hong Kong as group financial controller. He joined Metro Pacific Corporation in 1995 as finance director, a position he held until he joined us in November 1998.

Mr. Rolando G. Peña was appointed in January 2008 as head of customer service assurance group. He is responsible for managing the overall development and implementation of strategies and programs covering network engineering and operations, facility provisioning and maintenance, and customer servicing and fulfillment. Mr. Peña has over 20 years of experience in telecommunication operations and was chosen as Electronics and Communications Engineer for the year 2000 by the Institute of Electronics and Communications Engineers of the Philippines. From 1999 to 2007, he was the head of network services division of Smart and prior to joining Smart in 1994, he was the first vice president in charge of technical operations of Digital Telecommunications Philippines, Inc. Mr. Peña holds directorships in certain subsidiaries of PLDT and Smart.

Mr. Ramoncito S. Fernandez was appointed in January 2008, as the head of international and carrier business of PLDT and Smart in a concurrent capacity. He is responsible for directing overall initiatives to optimize business potentials and grow revenues for both international and domestic carrier markets. Mr. Fernandez has over 15 years of experience in materials management, industrial marketing and sales. He was the administration and materials management head of Smart from 2000, and of PLDT from 2004, until December 31, 2007. He was the executive vice president in charge of marketing, sales and logistics of Starpack Philippines, Inc. until June 2000. He also worked for Union Carbide Philippines in manufacturing and industrial engineering. Mr. Fernandez holds directorships in certain subsidiaries of PLDT and Smart.

Mr. Danilo J. Mojica is head of the wireless consumer division of Smart. Prior to joining Smart in June 2006, he was the general manager and chief operating officer of Cebu Pacific Air, a wholly-owned subsidiary of JG Summit Group, from 2003 to 2006 and was president of Rickett Benckiser Indonesia from 1997 to 2003.

Terms of Office

The directors of PLDT are elected each year to serve until the next annual meeting of stockholders and until their successors are elected and qualified. The term of office of all officers is coterminous with that of the board of directors that elected or appointed them.

Family Relationships

None of the directors, key officers and advisors of PLDT has any family relationships up to the fourth civil degree either by consanguinity or affinity.

Compensation of Key Management Personnel of the PLDT Group

The aggregate compensation paid to our key officers and directors named above, as a group, for 2007 amounted to approximately Php1,092 million.

Each of the directors, including the members of the advisory board of PLDT, is entitled to a director s fee in the amount of Php125,000 for each meeting of the board attended. Each of the members or advisors of the audit, executive compensation, governance and nomination and technology strategy committees is entitled to a fee in the amount of Php50,000 for each committee meeting attended.

There are no agreements between PLDT Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT Group s retirement and incentive plans.

Long-Term Incentive Plan

On August 3, 2004, PLDT s board of directors approved the establishment of the original LTIP, or Original LTIP, for eligible key executive officers and advisors of PLDT and its subsidiaries, which is administered by the Executive Compensation Committee. The Original LTIP is a four-year cash-settled share based plan that covered the period from January 1, 2004 to December 31, 2007, or the Performance Cycle. The payment of awards was intended to be made at the end of the Performance Cycle (without interim payments) and contingent upon the achievement of an approved target increase in PLDT s common share price by the end of the performance cycle and a cumulative consolidated net income target for the Performance Cycle.

On August 28, 2006, PLDT s board of directors approved, in principle, the broad outline of the PLDT Group s strategic plans for 2007 to 2009 focusing on the development of new revenue streams to drive future growth while protecting the existing core communications business. To ensure the proper execution of the three-year plan, particularly with respect to the manpower resources being committed to such plans, a new LTIP, or New LTIP, upon endorsement of the executive compensation committee, was approved by the board of directors to cover the period from January 1, 2007 to December 31, 2009, or New Performance Cycle.

As a result of the establishment of the New LTIP, the board of directors also approved the early vesting of the Original LTIP by the end of 2006 for those of its participants who were invited to join the New LTIP and chose to join. Participants in the Original LTIP who were not invited to join the New LTIP, or who were invited but chose not to join, remained subject to the Original LTIP and its original vesting schedule.

The New LTIP, like the Original LTIP, is a cash plan that is intended to provide meaningful, contingent, financial incentive compensation for eligible executives, officers and advisors of the PLDT Group, who are consistent performers and contributors to the achievement of the long-term strategic plans and objectives, as well as the functional strategy and goals of the PLDT Group.

The New LTIP, like the Original LTIP, is administered by the executive compensation committee which has the authority to determine (a) eligibility and identity of participants; (b) the award attributable to each participant based on the participant s annual base compensation and taking into account such participant s seniority, responsibility level, performance potential, tenure with the PLDT Group, job difficulty and such other measures as the Committee deems appropriate; (c) the level of achievement of the performance objectives; and (d) the actual award payable to each participant based on the level of achievement of the performance objectives.

LTIP cost for the year ended December 31, 2007 pertaining to the New LTIP, and for the year ended December 31, 2006 pertaining to the Original LTIP, amounted to Php1,448 million and Php3,150 million, respectively. As at December 31, 2007 and 2006, outstanding LTIP liability amounted to Php1,494 million and Php5,030 million, respectively, see *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Executive Stock Option Plan

On April 27, 1999 and December 10, 1999, the board of directors and stockholders, respectively, of PLDT approved the executive stock option plan covering a total of 1,289,745 shares of common stock and the amendment of the seventh article of the Articles of Incorporation of PLDT denying the pre-emptive right of holders of shares of common stock to subscribe for any issue of the 1,289,745 shares of common stock pursuant to the executive stock option plan.

Stock options that were granted pursuant to the executive stock option plan to management executives and advisors/consultants of PLDT became fully vested in December 2004. An option holder may exercise his option to purchase that number of vested shares of common stock underlying his option, in whole or in part, at the price of Php814 per share, subject to adjustment upon the occurrence of specific events described in the executive stock option plan. The option exercise period is until December 9, 2009. The option holder is required to give written notice of exercise to the executive compensation committee, indicating the number of vested shares to be purchased, accompanied by payment in cash of the full amount of the purchase price for those shares.

As at February 29, 2008, the total number of shares of common stock allocated for options granted to the chief executive officer, directors and key officers of PLDT named below, as a group, under the executive stock option plan was 206,942.

Share Ownership

The following table sets forth information regarding ownership of our common stock and preferred stock, as at February 29, 2008, by our continuing directors, key officers and advisors. Each individual below owns less than 1% of our outstanding common and preferred shares.

Name of Owner	Shares of Common Stock(1)	Shares of Preferred Stock
Manuel V. Pangilinan	219,350	360
Napoleon L. Nazareno	9,487(2)	495
Helen Y. Dee	22,055(3)	180
Ray C. Espinosa	15,243(2)	
Takashi Ooi	1	
Tatsu Kono	100	
Rev. Fr. Bienvenido F. Nebres, S.J	3,078(4)	
Corazon S. de la Paz-Bernardo	11,146,310(5)	
Ma. Lourdes C. Rausa-Chan	699(2)	350
Oscar S. Reyes	1	360
Albert F. del Rosario	130,005	1,560
Pedro E. Roxas	1	540
Alfred V. Ty	1	
Ernesto R. Alberto		
Rene G. Bañez	1	540
Anabelle L. Chua	13,078(2)	
Jun R. Florencio	15	530
Menardo G. Jimenez, Jr.	22	
George N. Lim	5,356(2)	360
Alfredo S. Panlilio	280	
Claro Carmelo P. Ramirez	11,500	
Victorico P. Vargas	2,878	180
June Cheryl A. Cabal-Furigay		
Christopher H. Young	51,813(2)	
Rolando G. Peña		
Ramoncito S. Fernandez	156	
Danilo J. Mojica		

---

(1) As at February 29, 2008, under PLDT s ESOP, all of the options to purchase shares of common stock of key officers and directors listed in the table above had been exercised. No options have been granted to non-executive directors. All outstanding options were exercisable at an exercise price of Php814 per share and had an expiration date of December 10, 2009. All outstanding options were fully vested as at December 10, 2004.

(2) Includes PLDT common shares that have been lodged with the Philippine Central Depository, Inc.

(3) Includes 21,957 PLDT common shares registered in the name of Hydee Management and Resources, Inc. As chairperson and president of Hydee Management & Resources, Inc., Ms. Dee may exercise voting rights in respect and may be considered to have beneficial ownership of these shares.

(4) Includes 386 shares of PLDT s common stock registered in the name of Ateneo de Manila University and 2,690 shares of PLDT s common stock held of record by PCD Nominee Corporation. As president of the Ateneo de Manila

University, Rev. Fr. Nebres may exercise voting rights in respect of these shares and may be considered to have beneficial ownership of these shares.

(5) Includes 5,024,789 PLDT common shares registered in the name of Social Security System and 6,121,520 PLDT common shares held of record by PCD Nominee Corporation. Ms. De la Paz, as president and chief executive officer of the Social Security System, may exercise voting rights in respect of these shares and may be considered to have beneficial ownership of these shares.

The aggregate number of common and preferred shares directly and indirectly owned by directors, key officers and advisors listed above, as at February 29, 2008, was 11,631,430 and 5,455 respectively, or 6.157103% and 0.002888% of PLDT s outstanding common and preferred shares, respectively.

Board of Directors Independent Directors

At least four of our directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., Oscar S. Reyes, Pedro E. Roxas and Alfred V. Ty, are independent directors who are not officers or employees of PLDT or any of its subsidiaries, and who are free from any business or other relationship with PLDT or any of its subsidiaries which could, or could reasonably be perceived to, materially interfere with the exercise of independent judgment in carrying out their responsibilities as directors. The independence standards/criteria are provided in our By-Laws and Manual on Corporate Governance pursuant to which, in general, a director may not be deemed independent if such director is, or in the past five years had been, employed in an executive capacity by us or any company controlling, controlled by or under common control with us or he is, or within the past five years had been, retained as a professional adviser by us or any of our related companies, or he is not free from any business or other relationships with us which could, or could reasonably be perceived, to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Audit, Governance and Nomination, Executive Compensation and Technology Strategy Committees

Our board of directors is authorized under the by-laws to create committees, as it may deem necessary. We currently have four board committees, namely, the audit, governance and nomination, executive compensation and technology strategy committees, the purpose of which is to assist our board of directors. Each of these committees has a board-approved written charter that provides for such committee s composition, membership qualifications, functions and responsibilities, conduct of meetings, and reporting procedure to the board of directors.

Audit Committee

Our audit committee is composed of three members, all of whom are independent directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., who chairs the committee, Mr. Pedro E. Roxas and Mr. Oscar S. Reyes. Mr. Tatsu Kono and Ms. Corazon S. de la Paz-Bernardo, who are non-independent members of our board of directors, and Mr. Roberto R. Romulo, an independent member of our board of directors, serve as advisors to the audit committee. All of the members of our audit committee are financially literate and Ms. Corazon S. de la Paz-Bernardo, an advisor to the audit committee, is an accounting and financial management expert.

As provided for in the audit committee charter, the purposes of the audit committee are to assist our board of directors in fulfilling its oversight responsibilities for (i) PLDT s accounting and financial reporting principles and policies and internal audit controls and procedures; (ii) the integrity of PLDT s financial statements and the independent audit thereof; (iii) PLDT s compliance with legal and regulatory requirements; and (iv) the performance of the internal audit organization and the external auditors.

To carry its direct responsibility for the appointment, setting of compensation, retention and removal of the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the external auditors and the lead partner of the external auditors;

- to select and appoint the external auditors and to remove or replace the external auditors;

- to review and approve in consultation with the head of the internal audit organization and the chief financial advisor the fees charged by the external auditors for audit and non-audit services;

- to pre-approve all audit and non-audit services to be provided by and all fees to be paid to the external auditors;

- to ensure that the external auditors prepare and deliver annually the statement as to independence, to discuss with the external auditors any relationships or services disclosed in such statements that may impact the objectivity, independence or quality of services of said external auditors and to take appropriate action in response to such statement to satisfy itself of the external auditor s independence;

- to ensure that the external auditors or the lead partner of the external auditors having the primary responsibility for the audit of PLDT s accounts is rotated at least once every five (5) years;

• to advise the external auditors that they are expected to provide the committee a timely analysis of significant/critical financial reporting issues and practices;

• to obtain assurance from the external auditors that the audit was conducted in a manner consistent with the requirement under applicable rules; and

• to resolve disagreements between management and the external auditors regarding financial reporting.

The audit committee also has the authority to retain or obtain advice from special counsel or other experts or consultants in the discharge of their responsibilities without the need for board approval.

Governance and Nomination Committee

Our governance and nomination committee is composed of five voting and two non-voting members. Three of the voting members are independent directors, namely, Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Alfred V. Ty and Mr. Oscar S. Reyes. Mr. Manuel V. Pangilinan, who serves as chairman, and Mr. Tatsu Kono are the other voting members, and Mr. Victorico P. Vargas and Atty. Ma. Lourdes C. Rausa-Chan are the non-voting members.

The principal functions and responsibilities of our governance and nomination committee are:

1. To develop and recommend to the board for approval and oversee the implementation of corporate governance principles and policies;

2. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring board appointment;

3. To identify the qualified nominees and recommend that the board select and recommend such qualified nominees for election as directors/independent directors at the annual meeting of shareholders; and

4. To assist our board in developing and implementing the board s performance evaluation process.

Executive Compensation Committee

Our executive compensation committee is composed of six members: five voting members and one non-voting member. Three of these voting members are independent directors, namely, Mr. Pedro E. Roxas, Mr. Oscar S. Reyes and Mr. Alfred V. Ty, two are non-independent directors, namely, Mr. Tatsu Kono and Mr. Albert F. del Rosario, who serves as chairman, and one is a non-voting member, namely Mr. Victorico P. Vargas.

The principal functions and responsibilities of our executive compensation committee are:

1. To provide guidance to and assist our board of directors in developing a compensation philosophy or policy consistent with our culture, strategy and control environment;

2. To oversee the development and administration of our compensation programs; and

3. To review and approve corporate goals and objectives relevant to the compensation of our chief executive officer, evaluate the performance of our chief executive officer in light of those goals and objectives, and set the compensation level of our chief executive officer based on such evaluation.

Technology Strategy Committee

Our technology strategy committee is composed of five members, all of whom are voting members. One of the members is an independent director, namely, Mr. Oscar S. Reyes, and four are non-independent directors, namely Mr. Manuel V. Pangilinan, who serves as chairman, Mr. Napoleon L. Nazareno, Mr. Ray C. Espinosa and Mr. Tatsu Kono.

The principal functions and responsibilities of our technology strategy committee are:

1. To review and approve our technology strategy and roadmap, and to review and advise our board on major technology trends and strategies;

2. To evaluate and advise our board on actual and proposed technology investments and transactions;

3. To review and submit to the board recommendations regarding management s formulation and execution and overall performance in achieving technology-related strategic goals and objectives; and

4. To recommend to the board approaches to acquiring and maintaining technology positions and maximizing our access to relevant technologies, and to ensure optimized contribution of technology to our business strategy and growth targets.

Effective June 12, 2007, our board of directors dissolved the finance committee, since, for several years thereto, all financial transactions which were within the authority of the finance committee to review and/or approve were elevated directly to our board.

Directors and Officers Involvement in Certain Legal Proceedings

The following is a description of the cases in which our chairman, Manuel V. Pangilinan, our president and chief executive officer, Mr. Napoleon L. Nazareno and our directors, Mr. Albert F. del Rosario, Ms. Ma. Lourdes C. Rausa-Chan and Ms. Corazon S. de la Paz-Bernardo are respondents:

1. Mr. Manuel V. Pangilinan, in his capacity as chairman of the board of Metro Pacific Corporation, a stockholder of Metro Tagaytay Land Company, Inc., or MTLCI, and four other individuals were respondents in I.S. 04-A-1057 for alleged violation of Article 315 (1)(b) (Estafa) of the Revised Penal Code filed by Mr. Vicente A. Tuason in behalf of Universal Leisure Club, Inc., or ULCI, and Mr. Jose L. Merin in behalf of Universal Rightfield Property Holdings, Inc., or URPHI.

In the complaint-affidavit, Messrs. Tuason and Merin alleged that, in violation of the trust reposed by ULCI and certain contractual commitments and representations, MTLCI, with the participation and/or conformity of the respondents, misappropriated and converted Php139 million that ULCI entrusted for the purpose of incorporating Golf Land Co., Inc. (GLCI), a corporation to be wholly owned by MTLCI and to which a property of MTLCI was to be transferred in exchange for shares in GLCI. The said shares were then supposed to be transferred to ULCI.

Based on his counsel s advice, Mr. Pangilinan cannot be held liable for violating Article 315 (1)(b) of the Revised Penal Code because no document or other evidence has been presented to prove that Mr. Pangilinan actually participated in the negotiation, preparation, approval, execution and/or implementation of the agreement/contract upon which the claims of the complainants are purportedly based, much less that Mr. Pangilinan, with abuse of trust and confidence, misappropriated any amounts paid by ULCI to MTLCI.

On March 25, 2004, Mr. Pangilinan submitted his counter-affidavit in I.S. No. 04-A-1057, including therein counter-charges against Messrs Tuason and Merin for Perjury and Unjust Vexation. These counter-charges were docketed as I.S. No. 04-C-5493-94.

In a Joint Resolution dated June 7, 2004, the City Prosecution Office of Makati dismissed all charges in the Estafa case against Mr. Pangilinan as well as the counter-charges for Perjury and Unjust Vexation against Messrs. Tuason and Merin.

On November 16, 2004, ULCI, through Messrs. Tuason and Merin, filed with the Philippine Department of Justice, or DOJ, their respective Petitions for Review assailing the Resolution of the City Prosecution Office of Makati. Thereafter, the complainants and respondents including Mr. Pangilinan filed, with the assistance of their respective counsels, a Joint Motion to Dismiss (with prejudice) the charges and counter-charges subject of the investigation before the DOJ.

On March 20, 2006, Mr. Pangilinan, through counsel, filed a Manifestation and Motion reiterating the parties prayer in their Joint Motion to Dismiss that the cases be dismissed with prejudice. The DOJ still has to resolve this Joint Motion to Dismiss.

2. Mr. Napoleon L. Nazareno, in his capacity as president and chief executive officer of Smart, is a respondent in the following cases:

(a) Criminal Case No. 133235-R submitted to the Municipal Trial Court in Cities Branch 6 Cebu City and complaint docketed as I. S. No. 2005-57-B and filed with the Prosecutor s Office of Borongan, Eastern Samar, all for alleged violation of Section 301 in relation to Section 213 of Presidential Decree 1096 (otherwise know as the National Building Code of the Philippines). The complaints alleged that Smart built its cellsites without securing building permits and Smart s officers are criminally liable therefor.

In Criminal Case No. 133235-R, the Municipal Trial Court in Cities Branch 6 Cebu City granted Mr. Nazareno s Motion to Dismiss and ordered the dismissal of the case in an order dated July 13, 2007.

The Prosecutor s Office of Borongan, Eastern Sama r, finding no probable cause to indict respondent Mr. Nazareno, dismissed the complaint docketed as I.S. No. 2005-57-B in a Resolution dated July 4, 2007.

(b) Complaint docketed as I.S. 07-3216-F and filed with the Cebu City Prosecutor s Office by Integrated Distribution Network, Inc., or IDNI, for alleged Estafa and violation of Republic Act No. 8484, or the Access Devices Regulation Act of 1988 . IDNI alleged that Smart, through its directors and officers, including Mr. Nazareno, who are respondents in this complaint, perpetrated fraud by blocking the SIMs of its sub-dealers. The dispute arose from contracts executed between Smart and IDNI on roving billboards. The parties entered into a settlement agreement allowing IDNI to purchase electronic load from Smart within a specific period and for a specified amount. It is Smart s position that IDNI s cause of action, if any, is purely civil in nature.

The Cebu City Prosecutor s Office issued a resolution dated November 12, 2007, finding probable cause to indict the respondents for Estafa and violation of the Access Devices Regulation Act of 1988. On January 10, 2008, Mr. Nazareno filed a petition for review before the DOJ seeking the reversal of that Resolution. On January 16, 2008, the other respondents filed their petition for review before the DOJ. Both petitions are still pending before the DOJ.

3. Messrs. Napoleon L. Nazareno and Albert F. del Rosario and other directors and officers of the former PDCP Bank and some officers of the Bangko Sentral ng Pilipinas and Development Bank of the Philippines, are respondents in a complaint docketed as I.S. No. 2004-631 and filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. with the DOJ, for alleged syndicated Estafa, Estafa through falsification of documents, other deceits, malversation and robbery. In the complaint-affidavit, the complainant alleged that the officers and directors of PDCP Bank deceived the complainant to secure a loan from PDCP Bank through misrepresentation and with the sinister purpose of taking over the complainant s corporation. As stated in their respective counter-affidavits, the charges against the PDCP directors including Messrs. Nazareno and del Rosario are entirely without merit. The complaint was referred to the Office of the Ombudsman by the DOJ on October 30, 2007 on the ground that some of the respondents are public officers and the alleged offenses were committed in the performance of their official functions. The complaint is still pending with the Office of the Ombudsman.

4. Mr. Albert F. del Rosario and other former directors/officers, and Ms. Ma. Lourdes C. Rausa-Chan and other former corporate secretaries/assistant corporate secretaries of Steniel Cavite Packaging Corporation, Metro Paper and Packaging Products, Inc., AR Packaging Corporation and Starpack Philippines Corporation, are respondents in a case docketed as OMB C-C-04-0363-H (CPL No. C-04-1248) in the Office of the Ombudsman. The complaint is for alleged: (a) violation of Republic Act No. 3019 (otherwise known as the Anti-Graft and Corrupt Practices Act); (b) estafa thru falsification of public documents; (c) falsification of public documents under Article 171, in relation to Article 172, of the Revised Penal Code (RPC); (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. The complaint related to various tax credit certificates (allegedly fraudulent, with spurious and fake supporting documents) issued to Victory Textile Mills, Inc. (allegedly, a non-existent corporation with fictitious incorporators and directors) and transferred to several companies including the aforesaid companies. The complaints against Mr. del Rosario and Ms. Rausa-Chan involve the first two offenses only and in their capacity as director and corporate secretary, respectively, of Metro Paper and Packaging Products, Inc. In the opinion of the legal counsels of Mr. del Rosario and Ms. Rausa-Chan, there are no legal and factual bases for their inclusion as respondents in this complaint. Mr. del Rosario and Ms. Rausa-Chan had no participation or involvement in the alleged anomalous acquisition and transfer of the subject tax credit certificates. The case is still pending with the Office of the Ombudsman.

5. Ms. Corazon S. de la Paz-Bernardo, in her capacity as president and chief executive officer of Social Security System, or SSS, is a respondent in the following cases:

a. Complaints docketed as OMB-C-C-04-281F, OMB-C-A-04-0276F and CPC No-C-04-850 and filed with the Office of the Ombudsman for alleged inaction of SSS officials on the request for the payment of liquidated damages relating to the SSS Baguio building. On September 22, 2006, the Office of the Ombudsman dismissed the case. The complainant appealed the administrative case to the Court of Appeals but the same was dismissed. The criminal aspect of the case is pending appeal with the Supreme Court.

b. Complaint docketed as OMB-C-C-06-0166C and filed with the Office of the Ombudsman for alleged violation of Section 3 (h) of Republic Act 3019 and Section 7 (a) of Republic Act 6713. The case is still pending with the Office of the Ombudsman.

Employees and Labor Relations

As at December 31, 2007, we had 30,255 employees within the PLDT Group, with 5,415, 8,080 and 16,760 employees in our wireless, fixed line and ICT groups, respectively. PLDT had 7,909 employees at the end of 2007, of which 40% were rank-and-file employees, 55% were management/supervisory staff and 5% were executives. This number represents a decrease of 617, or approximately 7%, from the staff level as at the end of 2006, mainly as a result of the ongoing manpower rightsizing program. From a peak of 20,312 at the end of 1994, PLDT s number of employees has declined by 12,403, or 61%, by the end of 2007. As at December 31, 2006, we had 28,225 and 8,526 employees within the PLDT Group and PLDT, respectively. The increase in the number of employees within the PLDT Group from 2006 to 2007 primarily resulted from the acquisition of Springfield by SPi in April 2007.

PLDT has three employee unions, the members of which in the aggregate represent 20% of the employees of the PLDT Group. We consider our relationship with our rank-and-file employees union, our supervisors union and our sales supervisors union to be good.

On November 16, 2006, PLDT and the *Manggagawa ng Komunikasyon sa Pilipinas*, or MKP, our rank-and-file employees union, concluded and signed a new three-year Collective Bargaining Agreement, or CBA, covering the period from November 9, 2006 to November 8, 2009. This CBA provides each member a signing bonus equivalent to one month s salary (computed at the salary rate prevailing prior to November 9, 2006) plus Php15,000; monthly salary increases of Php2,150, Php2,200 and Php2,550 for the first, second and third year, respectively; an increase in the yearly Christmas gift certificate from Php7,000 to Php8,000; an increase in the amount of coverage under the group life insurance plan from Php500,000 to Php650,000; an additional contribution of Php1 million to the Educational Loan Fund; and Php35,000 funeral assistance for the death of a dependent. Other provisions of this CBA include increases in the rice subsidy and professional fee for dependent s hospitalization.

On March 8, 2005, PLDT and PLDT Sales Supervisors Union, or PSSU, concluded and signed a three-year CBA covering the period from January 1, 2005 to December 31, 2007. As at the date of the filing of this Annual Report on Form 20-F, negotiations are still on-going for the signing of a new CBA covering the period January 1, 2008 to December 31, 2010.

On January 20, 2005, PLDT and *Gabay ng Unyon sa Telekomunikasyon ng mga Superbisor*, or GUTS, our supervisors union, concluded and signed a three-year CBA covering the period from January 1, 2005 to December 31, 2007. As at the date of the filing of this Annual Report on Form 20-F, negotiations are still on-going for the signing of a new CBA covering the period from January 1, 2008 to December 31, 2010.

Pension and Retirement Benefits

Defined Benefit Plans

We have defined benefit pension plans, covering substantially all of our employees, except the employees of Smart. The plans require contributions to be made to a separate administrative fund.

PLDT has a trusteed, non-contributory defined benefit plan covering all permanent and regular employees. The benefit plan provides benefits upon normal retirement beginning at age 65, early retirement beginning at age 50 or completion of at least 30 years of credited service, voluntary resignation with completion of at least 15 years of credited service, total and physical disability, death and involuntary separation. Benefits are based on the employee's final monthly basic salary and length of service.

The normal retirement benefit is equal to a percentage of the final monthly basic salary per year of credited service. The percentage is 100% for those with less than 15 years of service at retirement and 125% for those with 15 years of service at retirement. Thereafter, the percentage increases by 5% for every additional year of credited service up to a maximum of 200%. Early retirement benefit is equal to the accrued normal retirement benefit based on salary and service at the date of early retirement.

In the event the benefit plan's assets were insufficient to pay the required retirement benefits, PLDT would be obligated to fund the amount of the shortfall. In addition, claims of PLDT's employees for retirement benefits that have accrued would rank above the claims of all other creditors of PLDT, in the event of PLDT's bankruptcy or liquidation.

Defined Contribution Plan

Smart maintains a trustee-managed, tax-qualified, multi-employer plan covering substantially all permanent and regular employees. The plan has a defined contribution format limiting Smart s obligation to specified contribution to the plan. It is being financed by the participating companies (Smart and its subsidiary, I-Contacts) and contribution by employees is optional.

We spent Php1,773 million for pension, retirement and similar benefits for our employees for the year ended December 31, 2007. In addition, Php603 million was recognized in respect of 616 employees who availed of the enhanced separation package under our MRP. For more information about the benefit plan including the total amount set aside to provide pension retirement or similar benefits, see *Note 5 Income and Expenses* and *Note 23 Share-based Payments and Employee Benefits* to the accompanying audited consolidated financial statements in Item 18.

Item 7. Major Shareholders and Related Party Transactions

The following table sets forth information regarding ownership of shares of PLDT s common stock as at February 29, 2008, of all shareholders known to us to beneficially own 5% or more of PLDT shares of common stock. All shares of PLDT's common stock have one vote per share.

Title of Class	Name and Address of Record Owner and Relationship With Issuer	Place of Incorporation	Name of Beneficial Owner and Relationship with Record Owner	Number of Shares Held of Record	Percentage of Class
Common	Metro Pacific Resources, Inc.(1)	Philippine	Same as Record Owner	17,112,534	9.06
	c/o Corporate Secretary	Corporation			
	18th Floor, Liberty Center,				
	104 H. V. dela Costa St.				
	Salcedo Village, Makati City				
Common	Philippine Telecommunications	Philippine	Same as Record Owner	13,338,415(3)	7.06
	Investment Corporation(2)	Corporation			

	12th Floor Ramon Cojuangco Bldg. Makati Avenue, Makati City				
Common	NTT Communications Corporation(4) 1-1-6 Uchisaiwai-cho 1-Chome, Chiyoda-ku Tokyo 100-8019, Japan	Japanese Corporation	See Footnote 6 below	12,633,487	6.69
Common	NTT DoCoMo, Inc.(5) 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho, Chiyoda-ku Tokyo 100-6150, Japan	Japanese Corporation	See Footnote 6 below	12,633,486(6)	6.69
Common	Social Security System(7) SSS Building East Avenue, Quezon City	Philippine Corporation	Same as Record Owner	5,024,789(8)	2.66
Common	PCD Nominee Corporation(9) 37/F Enterprise Building, Tower I Paseo De Roxas cor. Ayala Avenue, Makati City	Philippine Corporation	See Footnote 9 below	84,247,398	44.60
Common	J. P. Morgan Asset Holdings (HK) Limited(10) (various accounts) 20F Chater House, 8 Connaught Road	HongKong Corporation	See Footnote 10 below	38,906,071	20.59

	Central, Hongkong				
Common	Capital Research Global Investors(11)	Delaware Corporation	See Footnote 11 below	15,098,070	7.99

---

(1) Based on a resolution of the board of directors of Metro Pacific Resources, Inc., or MPRI, Mr. Manuel V. Pangilinan has been appointed as proxy or duly authorized representative of MPRI to represent and vote the PLDT shares of common stock of MPRI at the annual meeting of stockholders of PLDT.

(2) Pursuant to a resolution adopted by the board of directors of Philippine Telecommunications Investment Corporation, or PTIC, the president of PTIC, Mr. Manuel V. Pangilinan, has the continuing authority to represent PTIC at any and all meetings of the stockholders of a corporation in which PTIC owns of record or beneficially any shares of stock or other voting security, and to sign and deliver, in favor of any person he may deem fit, a proxy or other power of attorney, with full power of delegation and substitution, authorizing his designated proxy or attorney-in-fact to vote any and all shares of stock and other voting securities owned of record or beneficially by PTIC at any and all meetings of the stockholders of the corporation issuing such shares of stock or voting securities.

(3) In addition to the 13,338,415 shares owned on record by PTIC, PTIC beneficially owns 12,695,848 shares of PLDT s common stock held of record by PCD Nominee Corporation, or PCD. The total shareholdings of PTIC is 26,034,263 shares of PLDT common stock representing 13.78% of the outstanding common stock of PLDT as at February 29, 2008.

First Pacific Group beneficially owned 26.17% of our common shares as at February 29, 2008 by virtue of PLDT common shareholdings by intermediate holding companies, including PTIC and MPRI.

(4) Based on publicly available information, NTT Communications is a wholly-owned subsidiary of Nippon Telegraph and Telephone Corporation, or NTT. Based on a certification signed by a duly authorized officer of NTT Communication, Mr. Jun Sawada is authorized to execute for and on behalf of NTT Communications, endorsements, transfers, and other matters relating to the shares of PLDT common stock held by NTT Communications.

(5) Based on publicly available information, NTT DoCoMo is a majority-owned and publicly traded subsidiary of NTT. Based on a certification signed by a duly authorized officer of NTT DoCoMo, Mr. Toshinari Kunieda or Mr. Matsuo Yamamoto, is authorized to execute for and on behalf of NTT DoCoMo, endorsements, transfers and other matters relating to the PLDT shares of common stock held by NTT DoCoMo.

(6) NTT DoCoMo completed an acquisition of 12,633,486 shares of PLDT common stock from NTT Communications on March 14, 2006. From March 23, 2007 to February 11, 2008, NTT DoCoMo acquired through open market purchases a total of 14,134,588 additional shares of PLDT common stock. The total shareholdings of NTT DoCoMo is 26,768,074 shares of PLDT common stock (of which 12,633,486 are owned on record by NTT DoCoMo, 8,533,253 are ADS and 5,601,335 are held of record by PCD) representing 14.17% of the outstanding common stock of PLDT as of February 29, 2008.

In reports filed by NTT Communications and NTT DoCoMo, it is stated that because of NTT s ownership of all the outstanding capital stock of NTT Communications and a majority of the common stock of NTT DoCoMo, together with certain contractual arrangements including the Cooperation Agreement dated January 31, 2006, NTT, NTT Communications and NTT DoCoMo may be considered to constitute a group within the meaning of Section 13(d)(3) of the U.S. Securities Exchange Act of 1934, as amended. Therefore, each of them may be deemed to have beneficial ownership of the 39,401,561 shares in aggregate held by NTT Communications and NTT DoCoMo, representing 20.86% of the outstanding common stock of PLDT as at February 29, 2008.

(7) Pursuant to a resolution of the Board of Directors of the Social Security System, or SSS, Ms. Corazon S. de la Paz-Bernardo, as president and chief executive officer of the SSS, has been authorized to represent and vote the PLDT shares of common stock of SSS in the annual meeting of stockholders of PLDT.

(8) In addition to the 5,024,789 shares owned on record by the SSS, SSS also beneficially owned 5,750,492 shares of PLDT common stock held of record by PCD. The total beneficial shareholdings of SSS is 10,775,281 shares of PLDT common stock representing 5.70% of the outstanding common stock of PLDT as at February 29, 2008.

(9) Registered owner of shares held by participants in the Philippine Depository and Trust Co., or PDTC, a private company organized to implement an automated book entry system of handling securities transactions in the Philippines. Under the PDTC procedures, when an issuer of a PDTC-eligible issue will hold a stockholders meeting, the PDTC will execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares held in the principal securities account, the participant concerned is appointed as proxy with full voting rights and powers as registered owner of such shares. For the shares held in the client securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. Based on available information, none of the owners of the shares of PLDT common stock registered under the name of PCD Nominee Corporation, or PCD, owned more than 5% of PLDT s outstanding common stock as at February 29, 2008, except The Hongkong and Shanghai Banking Corp. Ltd. Clients, Capital Research Global Investors, and Citibank N.A., which own approximately 19.37%, 7.99%, and 7.51%, respectively, of PLDT s outstanding common stock as at such date. The Company has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking Corp. Ltd. Clients, Capital Research Global Investors, and Citibank accounts owned more than 5% of PLDT s outstanding common stock as at such date.

The PCD account also includes 12,695,848 shares beneficially owned by the PTIC, 5,601,335 shares beneficially owned by NTT DoCoMo, 5,750,492 shares beneficially owned by SSS and 12,461,130 shares beneficially owned by Capital Research Global Investors.

(10) Holds shares as nominee of JPMorgan Chase Bank, successor depositary under the Common Stock Deposit Agreement, dated
October 14, 1994, as amended on February 10, 2003, between JPMorgan Chase Bank and the holders of American Depositary Receipts, or ADRs, evidencing American Depositary Shares, or ADSs, representing shares of common stock of the Company (the Deposit Agreement). Under the Deposit Agreement, if the depositary does not receive voting instructions from a holder of ADRs, such holder will be deemed to have instructed the depositary to provide a discretionary proxy to a person designated by PLDT for the purpose of exercising the voting rights pertaining to the shares of common stock represented by such holder of ADRs, except that no discretionary proxy will be given with respect to any matter as to which substantial opposition exists or which materially and adversely affects the rights of the holders of such ADRs.

This account also includes 2,636,940 shares of PLDT common stock underlying ADSs owned by Capital Research Global Investors, 8,533,253 shares of PLDT common stock underlying ADS owned by NTT DoCoMo.

(11) According to the Schedule 13G of Capital Research Global Investors filed with the U.S. SEC on February 11, 2008, Capital Research Global Investors, as an investment adviser, beneficially owned 15,098,070 shares of PLDT common stock, which includes 2,636,940 shares of PLDT common stock underlying ADSs and 12,461,130 shares of PLDT common stock held of record by PCD as at February 29, 2008.

As at February 29, 2008, approximately 85.95% of the outstanding capital stock of PLDT was registered in the names of Philippine persons.

Related Party Transactions

For a discussion of our material related party transactions, please see *Note 22 Related Party Transactions* to the accompanying audited consolidated financial statements in Item 18.

Except for the transactions described above, there were no other material related party transactions during the last two years.

No director or officer of PLDT or associate of any such director or officer was indebted to PLDT at any time during the period from January 1, 2007 through the date of filing of this annual report.

Item 8. Financial Information

-

Consolidated Statements and Other Financial Information

Consolidated financial statements are set forth under Item 18. Financial Statements.

Legal Proceedings

Except as disclosed in the following paragraphs, neither PLDT nor any of its subsidiaries is a party to, and none of their respective properties is subject to, any pending legal proceedings that PLDT considers to be potentially material to its and its subsidiaries business.

Quo Warranto Action

On June 4, 1990, the Solicitor General of the Philippines instituted legal proceedings in the Regional Trial Court of Makati City seeking to oust Philippine Long Distance Telephone Company (PLDT) from exercising its franchise and/or to revoke, cancel and/or pre-terminate its franchise (Act No. 3436, as amended) and/or to break up an alleged unlawful monopoly and give equal and fair opportunity to other service corporations. The Solicitor General cited constitutional and statutory grounds for his action, including alleged foreign investors participation in the control and management of PLDT on a basis disproportionate to their holdings of PLDT s capital stock, violation of the requirement that 60% of the capital of a public utility be owned by Philippine citizens, inadequate and costly equipment and service, and blocking of the right of other parties to provide telephone service in the Philippines.

We believe that these allegations are without merit and plan to defend ourselves vigorously. The Philippine Congress granted PLDT s amended franchise under Republic Act No. 7082 notwithstanding the existence of these proceedings and the opposition of the Solicitor General. The case has been archived by virtue of a court order dated January 20, 1999. No further action has been taken and the case continues to remain inactive.

Taxation

National Internal Revenue Taxes

PLDT has filed various cases against the Commissioner of the Bureau of Internal Revenue, or BIR, for refunds and/or tax credit of:

- erroneously paid VAT, compensating taxes, advance sales taxes and other internal revenue taxes on PLDT's importation of various equipment, machinery and spare parts; and

- erroneously paid withholding tax on separation pay of employees who availed of the benefits under the Manpower Reduction Program.

In the case of the claim for refund of erroneously paid value-added taxes, compensating taxes, advance sales taxes and other internal revenue taxes on PLDT s importation of various equipment, machinery and spare parts, the Supreme Court, on December 15, 2005, rendered a decision partially granting the claim for refund or tax credit certificates and ordering the Commissioner of Internal Revenue, or CIR, to issue a Tax Credit Certificate or to refund to PLDT Php95 million representing erroneously collected advance sales tax and compensating tax. PLDT filed a Motion for Execution with the Second Division of the Court of Tax Appeals which was opposed by the CIR. The Second Division of Court of Tax Appeals granted the Motion for Execution but the CIR appealed the said decision to the Court of Tax Appeals *En Banc* where the case is currently pending.

The case of the claim for refund of erroneously paid withholding tax on separation pay continues to be pending with the Supreme Court.

NTC supervision and regulation fees, or SRF

Since 1994, following the rejection of PLDT's formal protest against the assessments by the NTC of SRF, PLDT and the NTC had been involved in legal proceedings before the Court of Appeals and the Supreme Court. The principal issue in these proceedings was the basis for the computation of the SRF. PLDT s position, which was upheld by the Court of Appeals, but, as set forth below, rejected by the Supreme Court, was that the SRF should be computed based only on the par value of the subscribed or paid up capital of PLDT, excluding stock dividends, premium or capital in excess of par.

As at December 31, 2007, PLDT has paid, since 1994, a total amount of Php2,541 million in SRF of which Php2,251 million were paid under protest. The Supreme Court, in a Resolution promulgated on December 4, 2007, upheld the NTC assessment of SRF based on outstanding capital stock of PLDT, including stock dividends. On April 3, 2008, PLDT complied with the Supreme Court Resolution in paying the outstanding principal balance relating to stock dividends in the amount of Php455 million to the NTC.

Local business and franchise tax assessments

As discussed below, we currently expect that going forward, we will pay local franchise taxes on an annual basis based on the gross receipts received or collected for services rendered within the jurisdiction of the respective taxing authority. For this reason, we have made the appropriate provisions in our consolidated financial statements as at December 31, 2007.

The Local Government Code of 1991, or Republic Act (R.A.) 7160, which took effect on January 1, 1992, extended to local government units, or LGUs, the power to tax businesses within their territorial jurisdiction granted under Batas Pambansa 337, and withdrew tax exemptions previously granted to franchise grantees under Section 12 of R.A. 7082.

PLDT believes, based on the opinion of its legal counsel, that the Public Telecommunications Policy Act, or R.A. 7925, which took effect on March 16, 1995, and the grant of local franchise and business taxes exemption privileges to other franchise holders subsequent to the effectivity of R.A. 7160, implicitly restored its local franchise and business taxes exemption privilege under Section 12 of R.A. 7082, or the PLDT Franchise pursuant to Section 23 thereof or the equality of treatment clause. To confirm this position, PLDT sought and obtained on June 2, 1998 a ruling from the Bureau of Local Government Finance, or BLGF, of the Philippine Department of Finance, which ruled that PLDT is exempt from the payment of local franchise and business taxes imposable by LGUs under R.A. 7160. However, on March 25, 2003, in a ruling relating to a tax assessment by the City of Davao, the Supreme Court decided that PLDT was not exempt from the local franchise tax.

Although PLDT believes that it is not liable to pay local franchise and business taxes, PLDT has entered into compromise settlements with several LGUs, including the City of Makati, in order to maintain and preserve its good standing and relationship with these LGUs. Under these compromise settlements, which have mostly been approved by the relevant courts, as at December 31, 2007, PLDT has paid a total amount of Php694 million for local franchise tax covering prior periods up to the end of 2006.

PLDT had no longer contested assessments of LGUs for franchise taxes based on gross receipts received or collected for services within their respective territorial jurisdiction as at December 31, 2007.

However, PLDT continues to contest the imposition of local business taxes in addition to local franchise tax by the Cities of Tuguegarao, Balanga and Caloocan in the amounts of Php1.9 million, Php0.2 million and Php6.2 million, respectively, for the years 1998 to 2003 for the City of Tuguegarao, and for the years 2005 to 2007 for the Cities of Balanga and Caloocan. PLDT is likewise contesting the imposition of a business tax on the transmission of messages by the Municipality of San Pedro in the amount of Php0.3 million for the years 2005 to 2007. In addition, PLDT is contesting the imposition of franchise tax by the Province of Cagayan based on gross receipts derived from outside its territorial jurisdiction in the amount of Php3 million for the years 1999 to 2006.

While Smart had received and paid under protest the local franchise tax assessment issued by the City of Makati totaling approximately Php312 million, the Regional Trial Court, or RTC, of Makati declared Smart exempt from payment of local franchise tax to the City of Makati and on June 9, 2005, the Court of Appeals dismissed the appeal filed by the City of Makati.

Also, Smart had received LFT assessments issued by the City of Iloilo amounting to approximately Php1 million. The RTC of Iloilo has likewise ruled in a decision dated January 19, 2005 that Smart is exempt from payment of local franchise tax to the City of Iloilo. To date, Smart has not received any notice that the said decision had been appealed by the City of Iloilo.

Dividend Distribution Policy

Please see Item 3. Key Information Dividends Declared for a description of our dividend distribution policy, and please see Item 3. Key Information Dividends Declared and *Note 7 Earnings Per Common Share* to the accompanying audited consolidated financial statements in Item 18 for tables that show dividends declared in 2007.

Item 9. The Offer and Listing

Common Capital Stock and American Depositary Shares (ADSs)

The common shares of PLDT are listed and traded on the PSE. On October 19, 1994, an ADR facility was established, pursuant to which Citibank, N.A., as the depositary, issued ADRs evidencing 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 of PLDT s ADR facility. The facility was established in accordance with a Common Stock Deposit Agreement dated October 19, 1994, as amended on February 10, 2003 between the Depositary and the holders of the ADRs. The ADSs have been listed and are traded on the New York Stock Exchange, or NYSE, in the United States under the symbol PHI .

Until early 2007, the ADSs were also listed on the NYSE Arca. However, PLDT voluntarily delisted its ADSs from the NYSE Arca, effective February 12, 2007, after determining that doing so is in the best interest of PLDT and its stockholders.

As at February 29, 2008, a total of 7.0 million shares of PLDT's common capital stock were traded on the PSE. During the same year, the volume of trading was 7.7 million ADSs on the NYSE.

As at February 29, 2008, 10,807 stockholders were Philippine persons and held approximately 35% of PLDT s common capital stock. In addition, as at February 29, 2008, there was a total of approximately 43 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 374 holders.

High and low sales prices for PLDT s common shares on the PSE and ADSs on the NYSE for each of the five most recent fiscal years, each full quarterly period during the two most recent fiscal years, and each month in the most recent six months were as follows:

	Philippine Stock Exchange		**New York Stock Exchange**	
	High	**Low**	**High**	**Low**
2008				
First Quarter	Php3,175.00	Php2,520.00	US$76.72	US$61.49
January	3,175.00	2,520.00	76.72	62.20
February	3,050.00	2,830.00	75.67	70.13
March	2,905.00	2,600.00	71.65	61.49
2007	3,285.00	2,250.00	76.30	45.25
First Quarter	2,820.00	2,250.00	56.62	45.25
Second Quarter	2,730.00	2,390.00	58.88	50.05
Third Quarter	2,950.00	2,270.00	65.16	48.00
Fourth Quarter	3,285.00	2,900.00	76.30	64.90
October	3,285.00	2,900.00	72.50	64.90
November	3,105.00	2,925.00	73.39	67.21
December	3,205.00	2,970.00	76.30	69.62
2006	2,610.00	1,675.00	51.90	32.15
First Quarter	1,930.00	1,675.00	38.09	32.20
Second Quarter	2,295.00	1,700.00	43.99	32.15
Third Quarter	2,300.00	1,790.00	45.00	34.57
Fourth Quarter	2,610.00	2,150.00	51.90	42.56
2005	1,860.00	1,310.00	34.35	23.50
2004	1,505.00	810.00	27.03	14.38
2003	990.00	265.00	17.79	4.85

Item 10. Additional Information

-

Articles of Incorporation and By-Laws

The following summarizes certain provisions of PLDT's Articles of Incorporation and By-Laws and applicable Philippine law. This summary is qualified in its entirety by reference to the Corporation Code of the Philippines (the Corporation Code) and PLDT s Articles of Incorporation and By-Laws. Information on where investors can obtain copies of the Articles of Association and By-Laws is described under the heading Documents Available.

Purpose of PLDT

PLDT's Articles of Incorporation have been filed with the Philippine SEC and PLDT has been issued Philippine SEC Reg. No. 55. The Second Article of PLDT's Articles of Incorporation provides that the purposes for which PLDT was formed are to install, maintain, and operate any and all kinds of equipment for communications; to install, maintain, operate or lease telephone lines and systems, and to purchase, sell and deal in all kinds of products which may be combined with the building, installing and operation of those systems and lines and in general, to engage in any and all acts and business which may be necessary or convenient, in the furtherance of such lines of communication and business.

Directors

PLDT's Amended By-Laws provide that the board of directors shall consist of thirteen members, each of whom must hold at least one share of stock of PLDT in his own name and possess the minimum qualifications and have none of the disqualifications provided in the By-Laws. There are no provisions in PLDT s Amended Articles of Incorporation or Amended By-Laws with respect to (a) a director s power to vote on a proposal, arrangement or contract in which the director is materially interested, (b) the directors power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body, (c) borrowing powers exercisable by the directors and how such borrowing powers can be varied, or (d) retirement or non-retirement of directors under an age limit requirement.

Description of PLDT Capital Stock

Authorized Capital Stock

The authorized capital stock of PLDT is Php9,395 million divided into two classes consisting of 234 million shares of Common Capital Stock with a par value of Php5 per share (the Common Stock) and 822.5 million shares of serial

Preferred Stock with a par value of Php10 per share (the Preferred Stock).

Common Stock

Set out below is a statement of the dividend, voting, pre-emption and other rights of the holders of Common Stock as set out in the Articles of Incorporation and/or By-Laws of PLDT:

(a) After the requirements with respect to preferential dividends on the serial Preferred Stock shall have been met and after PLDT shall have complied with all the requirements, if any, with respect to the setting aside of sums as purchase, retirement or sinking funds, the holders of the Common Stock shall be entitled to receive such dividends as may be declared from time to time by the board of directors out of funds legally available therefor.

(b) After distribution in full of the preferential amounts to be distributed to the holders of serial Preferred Stock in the event of the voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of PLDT, the holders of Common Stock shall be entitled to receive all the remaining assets of PLDT of whatever kind available for distribution to stockholders ratably in proportion to the number of Common Stock held by them, respectively.

(c) Except as may be otherwise required by law, or by the Articles of Incorporation of PLDT, each holder of Common Stock shall have one vote in respect of each share of such stock held by him on all matters to be voted upon by the stockholders, and the holders of Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. At every election of directors, a holder of Common Stock is entitled to vote such shares of Common Stock held by him for as many persons as there are directors to be elected, or to cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or to distribute such votes on the same principle among as many candidates as he shall think fit.

In addition to the foregoing rights, the Corporation Code provides for other stockholders rights generally, which include:

(a) Appraisal right or the right of a dissenting stockholder to demand payment of the fair value of his shares of stock in the following instances: (a) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets of the corporation; (c) in case of merger or consolidation; and (d) in case of investment of funds of the corporation in any other corporation or business or for any purpose other than the primary purpose for which it was organized, except where the investment by the corporation is reasonably necessary to accomplish its primary purpose as stated in its articles of incorporation.

(b) The right to approve certain corporate acts, such as (a) election of directors; (b) removal of directors; (c) extension or shortening of the corporate term; (d) increase or decrease of capital stock, and incurring, creating or increasing bonded indebtedness; (e) sale or other disposition of all or substantially all of the corporate assets; (f) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized except where the investment is reasonably necessary to accomplish its primary purpose as stated in the corporation s articles of incorporation; (g) declaration of stock dividend; (h) entering into a management contract with another corporation; (i) plan of merger or consolidation; and (j) voluntary dissolution of the corporation by shortening the corporate term.

(c) The right to inspect at reasonable hours on business days the records of all business transactions of the corporation and the minutes of any meeting; however, the stockholders right to inspect corporate records and books is not an absolute right so that the corporation may deny said right on the basis of impropriety of the purpose or motive of the stockholder.

(d) The right to be furnished the most recent financial statements of the corporation, within ten (10) days from receipt by the corporation of a written request from a stockholder. The same right exists at the annual meeting of stockholders at which the board of directors must present to the stockholders a financial report of the operations of the corporation for the preceding year which shall include financial statements duly signed and certified by an independent certified public accountant.

Restrictions on Foreign Ownership

The Constitution of the Republic of the Philippines (Section 11, Article XII) states that no franchise, certificate, or any other form of authorization for the operation of a public utility shall be granted except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

While the Articles of Incorporation and By-Laws of PLDT do not contain any specific restriction on the sale, assignment or transfer of shares that would violate the aforecited ownership requirement, the Articles of Incorporation of PLDT provide that the board of directors shall have full power and authority to authorize (whether by adoption of amendments to the By-Laws of PLDT or of resolutions, the promulgation of rules or regulations or otherwise) the taking by said corporation of all such actions as the board of directors may deem necessary or appropriate to ensure compliance by said corporation with any applicable provision of the Constitution of the Republic of the Philippines or any other applicable law, treaty, rule or regulation relating to the ownership of securities of said corporation by citizens of the Philippines, aliens or other persons or group of persons.

Meetings

The Corporation Code requires corporations to hold an annual meeting of stockholders and to send notice thereof to stockholders. Under PLDT s By-Laws, the annual meeting of stockholders shall be held at the principal office of the corporation, or at such other place designated by the board of directors in the city or municipality where the principal office of the corporation is located, on the second Tuesday in June of each year. In the annual meeting, the board of directors shall be elected and such other business may be transacted as shall come before the meeting. At least fifteen (15) business days written or printed notice of the date, time and place of holding every annual stockholders' meeting shall be given by the Secretary or by an Assistant Secretary by personal delivery or by mail to each stockholder at his or her last known place of residence or business. Special meetings of stockholders may be called at any time by the President or three (3) of the Directors or by a number of stockholders representing two-thirds (2/3) of the subscribed capital stock. Notice in writing of such meeting stating the date, time or place thereof, shall be given to each stockholder by the Secretary or Assistant Secretary or, in case of his absence, inability, refusal or neglect to act, then by the President, Directors or stockholders calling said meeting, by personal delivery or by mail to each stockholder at his or her last known place of residence, at least fifteen (15) business days before the date fixed for the meeting.

The By-Laws of PLDT provide that each share of common stock which has voting rights on any matter under consideration may be represented at any meeting of stockholders by the holder thereof or by his attorney duly authorized by proxy in writing on forms prescribed by the board of directors which shall be furnished to a stockholder upon his request. Unless otherwise provided in the proxy, it shall be valid only for the meeting in respect of which such proxy was issued. Proxies must be filed with the Secretary, Assistant Secretary or transfer agent of PLDT at least two (2) days before the day of the meeting. Any proxy filed with the Secretary, Assistant Secretary or transfer agent of the corporation may be revoked by the stockholder concerned either in an instrument in writing duly presented to the Secretary, Assistant Secretary or transfer agent of the corporation at least two (2) days before the day of the meeting or by his personal presence at the meeting. The decision of the Secretary on the validity of proxies shall be final and binding until and unless set aside by a court of competent jurisdiction. As provided in the Corporation Code, unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended and no proxy shall be valid and effective for a period longer than five (5) years at any one time.

The By-Laws of PLDT also provide that at any meeting of the stockholders, persons representing, in person or by proxy, a majority of the shares issued and outstanding and entitled to vote at said meeting shall constitute a quorum for the transaction of any business, except as otherwise provided by law, and except that a lesser number may adjourn the meeting.

Issues of Shares

The board of directors of PLDT has the power to authorize the issue and sale of authorized but unissued shares of Common Stock of said corporation for such consideration as it shall determine, provided that such consideration shall not be less than the par value of such shares and, provided further, that such issue and sale is not otherwise prohibited under applicable laws.

Under the Securities Regulation Code of the Philippines (R.A. No. 8799), or SRC, no securities except of a class exempt under the provisions thereof or unless sold in any transaction exempt under any of the provisions thereof, shall be sold or offered for sale or distribution to the public unless such securities shall have been registered and permitted to be sold pursuant to the SRC.

Transfer of Shares

The shares of Common Stock may be transferred by delivery of certificate(s) endorsed by the shareholder named in the certificate or his duly authorized attorney or representative. No transfer, however, shall be valid, except as between the parties, until the transfer is recorded in the stock and transfer books of PLDT maintained by Hong Kong and Shanghai Banking Corporation, the stock transfer agent of PLDT for its Common Stock.

Philippine law does not require transfers of Common Stock to be effected on the PSE, but any off-exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on the PSE. All transfers of shares of Common Stock on the PSE must be effected through a licensed broker in the Philippines.

Share Certificates

Certificates representing fully paid shares of Common Stock are issued in such denominations as stockholders may request, except that certificates will not be issued for any fractional part of a share or any undivided interest in any share.

Dividends

Under the Corporation Code, the board of directors may declare dividends on the Common Stock out of the unrestricted retained earnings which may be payable in cash, in property or in stock to all stockholders on the basis of outstanding shares held by them. The declaration of stock dividends requires the approval of the stockholders of PLDT representing not less than two-thirds of the outstanding capital stock of PLDT. If a stock dividend would require an increase in the authorized capital stock, Philippine SEC approval would be required. Common Stock issued as stock dividends should be registered with and licensed by the Philippine SEC and listed on the PSE.

The Corporation Code requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite corporate expansion projects or programs approved by the board of directors; (ii) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/his consent, and such consent has not yet been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances relevant to the corporation, such as when there is a need for special reserve for probable contingencies.

PLDT has entered into certain loan and credit agreements, which restrict the declaration and payment of dividends by PLDT. In particular, under certain loan agreements, PLDT may not declare or pay dividends on any of its capital stock without the prior written consent of the lenders (i) if PLDT is in default in the payment of any amounts due and payable under such loan agreement or after the occurrence and during the continuance of any other event of default or potential event of default under such agreements, (ii) if after giving effect to such action the current ratio would be less than 0.90:1 or (iii) in an amount greater than PLDT s net income after taxes during the fiscal year to which such payment or distribution relates. On March 1, 2005, PLDT declared a cash dividend at Php14 per common share to holders of record as at March 31, 2005, which was paid on May 12, 2005, constituting the first cash dividend declaration to common shareholders since March 2001. This was followed by cash dividend declarations made by PLDT on its common stock on May 5, 2005, at Php21 per common share to holders of record as at June 3, 2005, which was paid on July 14, 2005; on November 8, 2005, at Php21 per common share to holders of record as at November 28, 2005, which was paid on December 28, 2005; on February 27, 2006, at Php28 per common share to holders of record as at March 20, 2006, which was paid on April 20, 2006; and on August 8, 2006, at Php50 per common share to holders of record as at August 21, 2006, which was paid on September 21, 2006.

Preferred Stock

Preferred Stock may be issued from time to time in one or more series as the board of directors may determine. The board of directors is authorized to establish and designate the title and number of shares of each series and to fix the terms thereof, including dividend rate, redemption and sinking fund provisions, conversion rights and the amount to be received upon liquidation, provided that the amounts payable upon redemption or liquidation may not be more than 110%, nor less than 100%, of par value, plus in each such case accrued and unpaid dividends. Except as otherwise provided by law, the holders of Preferred Stock are not entitled to vote for the election of directors or for any other purpose; provided, however, that PLDT may not change the rights of the holders of any series of Preferred Stock in any manner prejudicial to the holders thereof without the affirmative vote of the holders of a majority of the shares of such series. No such approval is needed to increase the number of shares of Preferred Stock (up to the number from time to time authorized by the Articles) or to authorize classes of shares ranking on a parity with the Preferred Stock.

Issued and Outstanding Preferred Stock

The series of Preferred Stock and the number of shares issued and outstanding under each series as at February 29, 2008 are as follows:

Series	No. of Shares
Series A to EE 10% Cumulative Convertible	405,661,417
Series IV Cumulative Non-Convertible Redeemable	36,000,000
Series V Cumulative Convertible Redeemable	27,303
Series VI Cumulative Convertible Redeemable	513,957

The Series A to EE 10% Cumulative Convertible Preferred Stock are entitled to receive cumulative dividends at the rate of 10% per annum; redeemable at the option of PLDT, at par value plus accrued dividends, five years after the year of issuance; convertible to shares of Common Stock a year after the year of share issuance, at a price equivalent to 10% below the average market price of the Common Stock at the PSE over a period of 30 consecutive trading days before the conversion date; and entitled to be paid an amount equal to the par value of the shares plus accrued and unpaid dividends thereon to the date fixed for such payment in the event of a voluntary or involuntary liquidation, dissolution, distribution of assets or winding up of the affairs of the corporation.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock are entitled to receive cumulative dividends at the rate of 13.5% per annum based on the paid-up subscription price. It is redeemable at the option of PLDT one year at any time after subscription at an amount equal to the par value of such shares so redeemed or if such shares are not yet fully paid, the actual amount paid, plus accrued and unpaid dividends thereon; and in the event of a voluntary or involuntary liquidation, dissolution or winding up of affairs of PLDT, shall be entitled to be paid an amount equal to the par value of such shares or if such shares are not yet fully paid, the actual amount paid, plus an amount equal to the dividends accrued thereon to the date fixed for payment. The outstanding shares of Series IV Cumulative Non-Convertible Redeemable Preferred Stock have not been fully paid.

Shares of Series V and VI Convertible Preferred Stock are entitled to receive annual dividends of Php18.70 per share and US$0.397 per share, respectively. Each share of Series V and VI Convertible Preferred Stock is convertible at any time at the option of the holder into one share of PLDT Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding up of PLDT, the holders of the Series V and VI Convertible Preferred Stock are entitled to receive out of the assets of PLDT available for distribution to the shareholders of PLDT, before any distribution of assets is made to holders of shares of Common Stock or any other shares of stock of PLDT ranking as to such distribution junior to the Series V and VI Convertible Preferred Stock, liquidating distributions in the amount of Php11 per share plus accrued and unpaid dividends. Shares of Series V and VI Convertible Preferred Stock which are outstanding on June 4, 2008, the seventh anniversary of the issue date thereof, will be mandatorily converted into shares of PLDT Common Stock on the date immediately following such anniversary date at a conversion rate of one share of Common Stock for each share of Series V or VI Convertible Preferred Stock subject to adjustments in certain events. Under a put option exercisable for 30 days following the mandatory conversion, holders of shares of PLDT Common Stock received on mandatory conversion will be able to require PLDT to purchase such shares of PLDT Common Stock for Php1,700 per share and US$36.132 per share, for Series V and VI Convertible Preferred Stock, respectively.

As at December 31, 2007, 2,690,650 shares of Series V Convertible Preferred Stock, 4,614,801 shares of Series VI Convertible Preferred Stock and 3,842,000 shares of Series VII Convertible Preferred Stock had been voluntarily converted to PLDT common shares and 30,790 shares of Series V and 680,303 shares of Series VI Convertible Preferred Stocks remained outstanding. As at December 31, 2007, the aggregate value of the put options based on outstanding shares as at such date was Php1,070 million assuming all of the outstanding shares of Series V and VI Convertible Preferred Stocks were mandatorily converted on June 5, 2008 and all the common shares issued upon conversion were put to PLDT at that time in accordance with the terms of the put options. The market value of the underlying common shares was Php2,256 million, based on the market price of PLDT common shares of Php3,175 per share as at December 31, 2007. On March 4, 2008, PLDT issued a notice to the effect that all of the shares of Series V and Series VI Convertible Preferred Stock originally issued on June 4, 2001, and outstanding as at June 4, 2008, will be mandatorily converted on June 5, 2008, to PLDT common shares. As a result of such mandatory conversion, holders of common shares received on mandatory conversion of the Series V and Series VI Convertible Preferred Shares will be able to exercise the above described put options in accordance with their terms.

Change in Control

Article V, Section 1 of PLDT's Amended By-Laws may have the eff