SEC Number **PW-55**

File Number

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

(Company's Full Name)

Ramon Cojuangco Building
Makati Avenue, Makati City

(Company's Address)

(632) 816-8556

(Telephone Number)

December 31, 2006

(Fiscal Year Ending)
(month & day)

SEC Form 17-A
(Annual Report)

Form Type

Not Applicable

Amendment Designation (if applicable)

Not Applicable

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2006

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

4. Exact name of registrant as specified in its charter Philippine Long Distance Telephone Company

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

6. [ ] (SEC Use Only)
Industry Classification Code:

7. Ramon Cojuangco Building, Makati Avenue, Makati City 1200
Address of principal office Postal Code

8. (632) 816-8556
Registrant's telephone number, including area code

9. Not Applicable
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code, or Sections 4 and 8 of the then Revised Securities Act.

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Capital Stock, Php5 par value	188,434,695 shares as of December 31, 2006

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

Yes [X] No [ ]

12. Check whether the registrant

(a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code and paragraph (2)(a) Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes [X] No [ ]

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

Yes [X] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates:

Php476,151,107,400 (188,574,696 shares @Php2,525.00 per share as of March 31, 2007)

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CERTAIN CONVENTIONS AND TERMS USED IN THIS ANNUAL REPORT

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

Unless the context indicates or otherwise requires, references to "we," "us," “our” or “PLDT Group” in this annual report mean Philippine Long Distance Telephone Company and our consolidated subsidiaries, and references to "PLDT" mean Philippine Long Distance Telephone Company, excluding consolidated subsidiaries.

In this annual report, each reference to:

- ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, our wholly-owned subsidiary;
- AIL means ACeS International Limited, a 20.23%-owned associate of ACeS Philippines;
- Airborne Access means Airborne Access Corporation, a 51%-owned subsidiary of ePLDT;
- ARPU means average monthly revenue per user;
- BCC means Bonifacio Communications Corporation, our 75%-owned subsidiary;
- Clark Telecom means PLDT Clark Telecom, Inc., our wholly-owned subsidiary;
- Digital Paradise means Digital Paradise, Inc., a 75%-owned subsidiary of ePLDT;
- DSL means digital subscriber line;
- DoCoMo means NTT DoCoMo, Inc.;
- ePLDT means ePLDT, Inc., our wholly-owned subsidiary;
- First Pacific means First Pacific Company Limited;
- PFRS means Philippine Financial Reporting Standards;
- GSM means global system for mobile communications;
- Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;
- Level Up! means Level Up!, Inc., a 60%-owned subsidiary of ePLDT;
- Mabuhay Satellite means Mabuhay Satellite Corporation (formerly Mabuhay Philippines Satellite Corporation), our 67%-owned subsidiary;
- Maratel means PLDT Maratel, Inc., (formerly Maranao Telephone Company, Inc.) our 97.5%-owned subsidiary;
- netGames means netGames, Inc., an 80%-owned subsidiary of ePLDT;
- NTC means the National Telecommunications Commission;
- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of Nippon Telegraph and Telephone Company of Japan;
- PAPTELCO means Philippine Association of Private Telephone Companies, Inc.;
- Parlance means Parlance Systems, Inc., a wholly-owned subsidiary of ePLDT;
- PLDT Global means PLDT Global Corporation, our wholly-owned subsidiary;

- Piltel means Pilipino Telephone Corporation, Smart's 92.1%-owned subsidiary;
- SEC means the Philippine Securities and Exchange Commission;
- SIM means subscriber identification module;
- Smart means Smart Communications, Inc., our wholly-owned subsidiary;
- Smart Broadband means Smart Broadband, Inc., (formerly Meridian Telekoms, Inc.) our wireless broadband provider and a 100%-owned subsidiary of Smart;
- SNMI means Smart-NTT Multimedia, Inc., our wholly-owned subsidiary;
- SPi means SPi Technologies, Inc., a wholly-owned subsidiary of ePLDT;
- Subic Telecom means Subic Telecommunications Company, Inc., our wholly-owned subsidiary;
- Telesat means Telesat, Inc., our 94.4%-owned subsidiary;
- VAS means value-added service;
- Ventus means ePLDT Ventus, Inc., a wholly-owned subsidiary of ePLDT;
- Vocativ means Vocativ Systems, Inc., a wholly-owned subsidiary of ePLDT;
- VSAT means very small aperture terminal; and
- Wolfpac means Wolfpac Mobile, Inc., our wireless content operator and a wholly-owned subsidiary of Smart.

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Description of Business

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 26 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 provider in the Philippines with approximately 63% of the total reported fixed line subscribers nationwide as of December 31, 2006. Smart, our wholly-owned subsidiary, is the leading cellular service provider in the country, with approximately 41% of total reported cellular subscribers as of December 31, 2006. Piltel, Smart's 92.1%-owned subsidiary, had approximately 17% of total reported cellular subscribers as of December 31, 2006. We have interests in the information and communications technology sectors, including the operation of *Vitro*™ data center, call center and business process outsourcing, or BPO, businesses.

Our common shares are listed on the Philippine Stock Exchange and our American Depositary Shares, or ADSs, are listed on the New York Stock Exchange. We had a market capitalization of approximately Php476,151 million as of March 31, 2007, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2006, we had consolidated revenues and other income of Php133,641 million and net income attributable to equity holders of Php35,116 million.

We operate under the jurisdiction of the NTC, which jurisdiction extends, among other things, to approving major services that we offer and rates that we charge.

Business Groups

Wireless

We provide cellular, wireless broadband, satellite, VSAT and other services through our wireless business segment. Revenues from our wireless services accounted for 58% of our consolidated revenues and other income for the year ended December 31, 2006.

Our cellular service, which accounted for about 93% of our wireless service revenues for the year ended December 31, 2006, is provided through Smart and its subsidiary, Piltel. Smart is the leading cellular service provider in the Philippines, with 17,201,005 subscribers as of December 31, 2006, representing a market share of approximately 41%. Piltel, a reseller of Smart's GSM network with its own branding, had 6,974,379 subscribers as of December 31, 2006, representing an estimated market share of 17%. In 2006, the combined number of Smart's and Piltel's subscribers increased by 3,766,763, or 18%, to 24,175,384 representing the largest increase in the number of cellular subscribers in absolute terms in that period among Philippine cellular providers. Cellular penetration in the Philippines continues to exceed expectations, reaching approximately 48% as of December 31, 2006, which was nearly 13 times the country's fixed line penetration, although the existence of subscribers owning multiple SIMs has likely overstated this penetration rate to a certain extent.

Almost 99% of Smart's and all of Piltel's cellular subscribers were prepaid as of December 31, 2006.

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 2006, generating revenues of Php34,403 million, an increase of Php3,594 million, or 12%, over 2005.

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 station, 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. With 6,099 GSM base stations as of the end of December 2006, Smart's cellular network covers over 99% of all towns and municipalities in the Philippines, accounting for approximately 99% of the population.

Fixed Line

We are the leading fixed line operator in the Philippines and the largest company providing 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 1,776,647 fixed line subscribers as of December 31, 2006. Revenues from our fixed line services accounted for 37% of our consolidated revenues and other income for the year ended December 31, 2006.

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.

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*™, call center business, BPO, and Internet and gaming business. Revenues from our ICT services accounted for 5% of our consolidated revenues and other income in 2006.

Historical Background

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: Philippine Telephone and Telegraph Company, which began operations in Manila in 1905; Cebu Telephone and Telegraph Company; Panay Telephone and Telegraph Company; and Negros Telephone and Telegraph Company.

In 1967, effective control of PLDT was sold by General Telephone and Electronics Corporation (a major stockholder 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 Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, First Pacific, through its Philippine and other affiliates, 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 15% economic and voting interest in the issued common capital stock of PLDT. On January 31, 2006, NTT DoCoMo agreed to acquire from NTT Communications about 7% of PLDT's outstanding common shares; NTT Communications retained ownership of PLDT common shares with a similar 7% equity holding. On February 28, 2007, First Pacific acquired an additional interest of approximately 46% in Philippine Telecommunications Investment Corporation, or PTIC. This additional investment in PTIC represents an attributable interest of approximately 6.4% issued common share capital of PLDT, thereby raising First Pacific's interest in PLDT to approximately 29%. See Item 11. "Security Ownership of Certain Beneficial Owners, Directors and Officers — Change in Control" for further discussion.

PLDT's original franchise, which was granted in 1928, was last amended in 1991 which extended its effectivity until 2028. The amended franchise (Republic Act No. 7082), which became effective on August 24, 1991, also broadened 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 3. "Legal Proceedings — Quo Warranto Action" for information regarding legal proceedings initiated by the Solicitor General with respect to PLDT's franchise.

Since the implementation of its Subscriber Investment Plan, or SIP, in 1973 pursuant to Presidential Decree No. 217, which required telephone subscribers to purchase shares of PLDT's preferred stock, PLDT has developed a broad base of public ownership with 2,189,374 common and preferred stockholders of record as of December 31, 2006. As approved by the NTC, the SIP was made optional beginning in 2003 from being compulsory in earlier years. Approximately 2,172,964 of these stockholders are Philippine persons representing approximately 86% of PLDT's outstanding common and preferred shares. For purposes of the percentages described in this paragraph, all the ADSs, each representing one PLDT common share and evidenced by American Depositary Receipts, or ADRs, are considered to held of record in the United States. See Item 5. "Market for Registrant's Common Equity and Related Stockholder Matters — Market Information" for a discussion regarding the ADSs.

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 a Next Generation Network, or NGN, and have rolled out a 3G network based on a wireless-code division multiple access, or W-CDMA, technology as well as 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 between voice and data, and fixed line and wireless and ICT. We are also lowering our costs by integrating the operations of our different businesses.

- *Strengthen our leading position in the data market*. Leveraging on the inherent strength of our fixed line business, we are committed to further develop, enhance and lead our fastest growing business segment – 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.

- *Strengthen our financial position*. We are working to increase our cash flows available for debt reduction and dividends by containing our operating costs and generating cash returns from our investments in subsidiaries. Since December 2002, Smart has been regularly paying dividends to PLDT to supplement PLDT's cash flows available for debt reduction. The cash flows generated by our businesses have increased significantly in recent years which have allowed us to substantially reduce our debts levels and also restore the payment of dividends to our shareholders. In 2006, our debt was down to US$1.76 billion and paid common dividends aggregating Php14,407 million. We expect that a greater proportion of our free cash flow in succeeding years will be utilized for the payment of common dividends while continuing to service our maturing debt obligations.

Subsidiaries

As part of our competitive and overall development strategy, we have made strategic acquisitions and investments to further enhance our ability to provide not only basic telephony but also a wide range of value-added and enhanced services, as well as advanced and bundled services.

Wireless

Smart

In March 2000, PLDT acquired Smart in an all-stock transaction. Smart, currently the market leader in the high-growth cellular business, was acquired to further strengthen the PLDT Group's market leadership in the telecommunications sector. With the combination of Smart's business with PLDT's existing fixed line business, the PLDT Group is generating revenue enhancements as well as cost and capital expenditure efficiencies.

In October 2003, Smart acquired a majority 80%-interest in Wolfpac. Prior to the acquisition, Wolfpac (then known as "Wolfpac Communications, Inc.") was one of Smart's leading content providers and the only Philippine content provider to have been nominated twice at the annual GSM Congress for their successes in application development. In July 2006, the remaining 20% equity interest in Wolfpac was acquired, following the share purchase agreement signed by Smart on May 8, 2006. The acquisition provides Smart with the opportunity to have a direct link to the content development community, a key differentiator in cellular service.

On September 2, 2004, Smart entered into a Sale and Purchase Agreement to acquire 100% of Smart Broadband, a company primarily engaged in providing wireless broadband and data services to small and medium-scale enterprises in the Philippines, for a total consideration of US$45 million of which payments of US$11 million and US$7 million were made in 2004 and US$4 million in January 2005; the balance of US$23 million was paid on March 7, 2006. The acquisition aims to strengthen Smart's position in the wireless data segment and is in line with Smart's overall strategy of providing the widest range of innovative wireless services.

With Smart and PLDT owning 85.6% and 6.5%, respectively, of Piltel's common equity, Piltel was reconsolidated into the PLDT group's wireless financial position and results of operations starting the year ended December 31, 2004. On April 25, 2005, PLDT and Smart entered into a subscription and assignment agreement under which PLDT assigned and transferred to Smart its 767 million Piltel common shares in exchange for 11 million of Smart's preferred shares. As a result, Smart's shareholdings in Piltel now represent 92.1% of Piltel's outstanding common shares; PLDT no longer owned any shares on Piltel's common stock.

Mabuhay Satellite

Mabuhay Satellite, incorporated on November 10, 1994, is engaged in the control and operation of Agila II, the Philippines' first communication satellite. Agila II commenced commercial operations in January 1998. Mabuhay Satellite leases satellite space segments in both the C and Ku bands on Agila II satellite. Through Agila II satellite, 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 February 2001, Mabuhay Satellite received a certification from the U.S. Federal Communications Commission, or FCC, for its Agila II satellite, establishing it as the first Asian satellite on the FCC's "Permitted Space Station" list. Agila II joins six other non-U.S. satellites on the select list. The granting of the certification indicates that Agila II satellite fully complies with the FCC's technical requirements and allows U.S.-owned and operated earth stations in Hawaii to access Agila II.

Telesat

Telesat, incorporated on June 21, 1991, operates a nationwide communications satellite network using VSAT technology. Telesat offers voice, facsimile and data transmission services throughout the Philippines, including areas that are underserved or unserved by local fixed line operators.

Using VSAT technology, Telesat provides point-to-multipoint data transmission services, usually for intercompany communication of corporate customers; private point-to-point services; and connectivity for the cell sites of our wireless network in outlying locations. Telesat leases transponder capacity on Agila II to provide VSAT services.

ACeS Philippines

ACeS Philippines, incorporated on October 24, 1995, owns approximately 20.23% of AIL. 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 terrestrial cellular systems in addition to the ACeS system. Further, AIL has an Air Time Purchase Agreement, or ATPA, with National Service Providers in Asia, including PLDT. For further discussion regarding the ATPA, please see "— Contractual Obligations and Commercial Commitments — Unconditional Purchase Obligations" and *Note 20 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7.

As part of the consolidation process of the PLDT Group's wireless business, ACeS Philippines' operations has been integrated into Smart. This operational integration effectively gives Smart the widest service coverage in the Philippines through the combination of ACeS Philippines satellite phone service and Smart's cellular service.

Fixed Line

Clark Telecom

Clark Telecom was incorporated on January 28, 1997, as Clark Telecommunications Company, Inc. It was renamed PLDT Clark Telecom, Inc. pursuant to its amended Articles of Incorporation, effective December 29, 1999. Clark Telecom was previously a joint venture between PLDT, owning 60%, and Clark Development Corporation, or CDC, holding the remaining 40%. In August 1999, CDC ceded its 40% ownership interest in Clark Telecom to PLDT, thus, making Clark Telecom a wholly-owned subsidiary of PLDT. Clark Telecom provides basic and enhanced telecommunications services within the Clark Special Economic Zone, or CSEZ, in Clark Field, Pampanga, and between the CSEZ and other cities and municipalities in the country as well as other countries and territories worldwide.

Maratel

In June 2001, PLDT acquired 2,439,060 common shares of Maratel, representing 92.3% of Maratel's issued and outstanding common stock, for a total consideration of Php451.3 million. In 2003, PLDT acquired an additional 134,237 common shares of Maratel for a consideration of Php1.3 million, thereby increasing PLDT's ownership interest in Maratel to 97.5%. Maratel, incorporated on August 10, 1951, is a franchised operator of telecommunications services in the province of Lanao del Norte and the cities of Iligan and Marawi. The acquisition of a controlling interest in Maratel has improved PLDT's existing coverage in Mindanao and strengthened its competitive position in the southern part of the country.

Subic Telecom

In June 1994, PLDT entered into a joint venture agreement with AT&T and the Subic Bay Metropolitan Authority, or SBMA, to form Subic Telecom. In November 1999, PLDT acquired SBMA's 20% ownership interest in Subic Telecom for a purchase price of Php180 million, increasing PLDT's stake in Subic Telecom from 40% to 60%. On February 16, 2001, PLDT also acquired AT&T's 40% stake in Subic Telecom for a consideration of US$8 million. Consequently, Subic Telecom became a wholly-owned subsidiary of PLDT. Subic Telecom, incorporated on September 28, 1994, is now operating a state-of-the-art telecommunications system at the Subic Special Economic and Freeport Zone, a former U.S. naval base that is now home to various multinational companies.

SNMI

On March 24, 2000, PLDT entered into a Stock Purchase Agreement with NTT Communications to purchase NTT Communications' 40% ownership interest in SNMI. This stock purchase transaction was consummated on April 25, 2000. Subsequently, PLDT also acquired Smart's 60% interest in SNMI, which became a wholly-owned subsidiary of PLDT upon completion of this transaction on August 14, 2000. SNMI, incorporated on April 29, 1997, was engaged in providing customized integrated telecommunications solutions to high-volume corporate users. SNMI's board of directors and stockholders approved the indefinite suspension of its business operations effective March 31, 2003. SNMI's operations were absorbed by the corporate business group of PLDT.

BCC

In 2002 and 2003, PLDT entered into a separate Deed of Assignment of Subscription with Smart and Fort Bonifacio Development Corporation, or FBDC, where Smart and FBDC assigned, transferred and conveyed in favor of PLDT their total subscription of 750,000 common shares and 750,000 preferred shares of BCC and all their interest and rights therein for a total consideration of Php93 million. The assignment included subscription payable of Php68 million. The shares represent 75% of the subscribed capital stock of BCC.

BCC was incorporated primarily to own, construct, establish, maintain, lease and otherwise operate, to the extent allowed by law, communication infrastructure and to provide related services, including but not limited to, value-added services, within the Fort Bonifacio Global City and Villamor Air Base.

PLDT Global

PLDT Global, incorporated on December 15, 2000 in the British Virgin Islands, is a wholly-owned subsidiary with a view of positioning PLDT as a full service global telecommunications player through a strategy of establishing presence in key cities worldwide. The following are wholly-owned subsidiaries of PLDT Global:

- *PLDT (UK) Limited* is a licensed public telephone carrier that specializes in registered home accounts and enterprise solutions;
- *PLDT (HK) Limited* is a Fixed Telecommunications Network Services and Public Non-Exclusive Telecommunications Service license holder that offers mobile services, international prepaid calling cards and enterprise solutions;
- *PLDT 1528 Limited* is the retail arm of PLDT (HK) Limited for its prepaid international direct dialing, or IDD, cards;
- *PLDT (SG) Pte Limited* is a licensed service-based operator that provides retail voice services through international prepaid calling cards;
- *PLDT (SG) Retail Service Pte Limited* is a licensed Mobile Virtual Network Operator that offers prepaid mobile services;
- *PLDT (US) Limited* is a licensed international common carrier that provides a range of Private Line solutions to its enterprise customers; and
- *PLDT Online, Inc.* is incorporated in the British Virgin Islands and specializes in selling products and services through an online portal.

Information and Communications Technology

ePLDT

ePLDT is engaged in information and communications technology businesses, focusing on enabling infrastructure and services for Internet applications, Internet protocol-based solutions and multimedia content delivery.

ePLDT recently engaged in the BPO service by acquiring SPi and its direct and indirect Philippine and offshore subsidiaries on July 11, 2006 and CyMed, Inc., on August 11, 2006, a leading medical transcription company based in Richmond, Virginia. Its services include editorial and content production, digital content conversion, pre-press project management, litigation support and conversion of medical records/data from handwritten or speech format to electronic format.

ePLDT operates an Internet Data Center under the brand name *Vitro*™. Granted by the Philippine Board of Investments pioneer status as an Internet Data Center, *Vitro*™ 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 Internet protocol security services such as firewall and managed firewall.

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Vocativ and Parlance. *Ventus* provides offshore contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, United States and the United Kingdom, while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States. In total, we own and operate approximately 5,600 seats with 5,130 customer service representatives, or CSRs, as at December 31, 2006 compared to approximately 3,350 seats with 3,625 CSRs as at December 31, 2005. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center site count to seven as at December 31, 2006.

ePLDT also currently holds equity interests in the following entities:

- a 99.6% interest in Infocom, one of the country's leading ISPs. Infocom offers consumer prepaid and postpaid Internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband Internet access through *DSL*; web consulting, development, hosting and other value-added services. In addition, Infocom, through its Customer Service Outsourcing Group, handles PLDT group's nationwide technical helpdesk operations;

- a 75% interest in Digital Paradise, an Internet café business with the brand *Netopia*;

- an 80% interest in netGames, a publisher for Massively Multi-player Online Games in the Philippines and the Philippine licensee of *Khan Online*, Pangya and Flyff, and the owner of Juanworld, a community gaming portal;

- a 60% interest in Level Up!, a leading publisher of online games in the Philippines with approximately 80% of the online gaming market. Level Up! was acquired on May 1, 2006;

- a 51% interest in Digital Paradise Thailand, an affiliate of Digital Paradise, offering similar products and services with four branches in Bangkok, Thailand;

- a 51% interest in Airborne Access, the country's leading operator of WiFi hotspots, which provides wireless Internet access in hotspots equipped with WiFi access points; and

- a 50% interest in ePDS, a bills printing company engaged in laser printing and enveloping services for statements, bills and invoices and other value-added services to companies in the Philippines;

- mySecureSign, Inc., a wholly-owned subsidiary of ePLDT and a principal affiliate of VeriSign, Inc., which is the largest certification authority and issuer of digital certificates worldwide;

- iPlus Intelligent Network, Inc., a wholly-owned subsidiary of ePLDT providing IT helpdesk/contact center solutions and terminals for credit, debit and cash card transactions;

- a 25.5% equity interest in Philweb, a company primarily engaged in Internet-based gaming and appointed as Principal Technology Service Provider under an agreement with the Philippine Amusement and Gaming Corporation;

- a 22.5% interest in Stradcom International Holdings, the parent company of Stradcom Corporation which has an existing concession agreement with the Philippine government for the modernization of the Philippine Land Transportation Office, including the computerization of driver's license issuance, vehicle registration and traffic adjudication systems; and

- a 19.17% interest in BayanTrade Dotcom, Inc., or BayanTrade, an e-procurement joint venture established together with six of the Philippines' leading conglomerates. Initial shareholding in BayanTrade was originally 20.5%, which was subsequently diluted to 19.17% in August 2004 due to an equity call to which ePLDT did not subscribe.

Products and Services, Rates and Revenues

Wireless

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

Cellular Service

Overview

Our cellular business is provided through Smart and Piltel to over 24 million subscribers, almost 99% of whom are prepaid subscribers. Smart markets nationwide cellular communications services under the following brand names: for the prepaid market, *Smart Buddy*, *Talk 'N Text* (through its subsidiary Piltel), *addict mobile prepaid*, or *amp* and *Smart Kid prepaid* and for the postpaid, or billed, market, *Smart Gold*, *addict mobile* and *Smart Infinity*. Each brand serves a specific segment of the market and the offerings are differentiated on the basis of handset offerings, content and VAS, etc.

The services and products provided by Smart include wireless voice communications, wireless data communications (primarily text messaging) and a variety of other VAS, which include (a) Mobile Banking (banking services delivered over the mobile phone); (b) *Smart zed*™; (c) *Smart Money*; (d) international roaming, as well as other VAS developed on its own platform.

The following table summarizes key measures of Smart's and Piltel's cellular business as of and for the years ended December 31, 2006, 2005 and 2004:

	Years Ended December 31,		
	2006	**2005**	**2004**
Systemwide cellular subscriber base	24,175,384	20,408,621	19,208,232
Smart	17,201,005	15,424,196	14,595,782
Prepaid	16,882,442	15,144,118	14,321,288
Postpaid	318,563	280,078	274,494
Piltel(1)	6,974,379	4,984,425	4,612,450
Growth rate of cellular subscribers	18%	6%	48%
Smart	12%	6%	45%
Piltel(1)	40%	8%	61%
Cellular service revenues (in millions)	Php75,605	Php72,409	Php66,782
Voice	35,221	35,444	33,412
Data	38,672	35,063	31,828
Others(2)	1,712	1,902	1,542
Percentage of cellular service to wireless revenues	93%	92%	97%

(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) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices, revenues from Wolfpac and Smart Money Holdings Corporation and a small number of leased line contracts.

Service Plans. Smart and its service brands are strong and widely recognized brand names in the Philippines. Smart's approach has been to methodically segment the market and tailor services and content appropriate to each particular niche. The best example of Smart's successful market segmentation strategy is *Talk 'N Text*, the brand carried by Smart's subsidiary, Piltel. *Talk 'N Text* is aimed at the lower-income markets with the objective of serving as a flanker brand against the competition. Capitalizing on the Filipino's love for pop culture, *Talk 'N Text* extensively uses local celebrities as its endorsers and the vernacular in its advertising and promotional campaigns. With approximately seven million subscribers, *Talk 'N Text* has the third-largest GSM subscriber base in the Philippines.

On the postpaid side, we have *Smart Gold* which serves the broad postpaid market and *Smart Infinity*, a premium postpaid plan targeting affluent individuals 35 years and above who are highly mobile locally and internationally. *Smart Infinity* offers a round-the-clock dedicated personal concierge service, international assistance services, premium handset packages and exclusive lifestyle content.

Voice Services. Cellular voice services comprise local (including Smart and Piltel-to-fixed lines and Smart and Piltel-to-other mobile operators), national long distance and international long distance calls. Voice remains a major contributor to revenues, generating a total of Php35,221 million, or 47%, and Php35,444 million, or 49%, of cellular service revenues in 2006 and 2005, respectively. Local calls continue to dominate outbound traffic with 67% of all outbound minutes originating from this service. In 2006, traffic volumes from local calls totaled 3,362 million minutes compared to 3,658 million minutes in 2005. National long distance traffic volumes for 2006 stood at 73 million minutes compared to 80 million minutes in 2005. Outbound international long distance decreased to 2% from 4% in 2005 of total outbound traffic with 165 million minutes and 169 million minutes generated in 2006 and 2005, respectively. The ratio of inbound-to-outbound international long distance minutes was 12.5:1 for 2006, compared to 9.2:1 in 2005.

Text Messaging Service and Other Value-added Services. The Philippines cellular market is one of the most text messaging-intensive markets in the world, totaling approximately 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.

Smart continues to offer products and services that provide value to its subscribers. In March 2005, Smart launched a series of promotions, under the brand *Smart 25*[8] *Unlimited Call* and *Text*, to test the market demand for fixed rate or "bucket" plans for voice and text. Under these promotions, Smart and *Talk 'N Text* prepaid subscribers had the option, for the duration of the promotion, to register for unlimited on-network voice calls or unlimited on-network text messaging service.

For 2006, Smart has focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* – a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Current offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 15 messages without expiration and *All Text 20*, which includes 100 on-network messages for Php20, with a validity period of one day. *All Text* also has a voice counterpart in *All Talk 20* which is a call package allowing three calls of up to three minutes each for local on-network calls, valid for one day. Other voice offerings include: (a) the *Flat Rate Call* promotion, which allows a subscriber to make an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 20*, *All Text 10 Bonus, All Talk 20* and *Tipid Talk* are now permanent offerings

Strong volume growth in text messaging contributed significantly to Smart's cellular revenue growth in 2006, generating revenues of Php75,605 million, an increase of Php3,196 million, or 4%, over 2005. During 2006, Smart and Piltel's text messaging systems handled over 32,052 million outbound messages on standard SMS services with another 203,669 million messages generated by the bucket-priced text services. This compares to 40,781 million outbound messages on standard SMS services in 2005 and 52,373 million outbound messages generated through bucket-priced text service. Unlimited SMS services were only made available in March 2005.

The success of text messaging is a strong indicator of future data potential in this market. In 2006, approximately 51% of Smart's cellular revenues were derived from data usage, compared to 48% in 2005.

Smart recognized early on the importance of diversified and innovative products and services as a competitive advantage in gaining and retaining market share as well as improving profitability. Smart has diversified its wireless data revenues beyond text messaging and is well ahead of other players in the market in terms of enhanced data services. Its catalog of innovations include the award-winning *Smart Money* (a mobile cash card) and *Smart Load* (an over-the-air electronic loading facility), both of which were honored by the World GSM Congress in 2001 and 2004, respectively, as "Most Innovative Service for Consumers." *Smart Load* has revolutionized the mobile industry with its adaptation of the "sachet" concept in consumer goods to air time reloads. The concept has since been emulated by other Asian operators and is regionally referred to as "micro prepaid reloads". Smart subsequently introduced *Pasa Load*, a derivative service of *Smart Load*, which allows for air time load transfers between subscribers. 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.

We also offer value-added services such as voice mail, information-on-demand, which is a service that allows subscribers to order information from our content providers whenever desired, *TextMail*, which is a service that allows subscribers to send and receive text messages through their personal computers and location-based services, and *Voice Text*, where subscribers can record a voice message of up to 30 seconds and send by text. In addition, Smart has a number of interactive activities, such as text games and chat services, developed on its own platforms.

On April 1, 2006, Smart rolled-out *Smart Click*, a chain of mobile Internet cafés. *Smart Click* Internet cafés are housed in air-conditioned 40-foot container vans designed to provide remote communities with high-speed, wireless Internet access nationwide. *Smart Click* has established 19 mobile Internet cafés as at December 31, 2006.

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 Enhanced Data for GSM Evolution, or EDGE. EDGE is a technology that would further increase the speed and data capability of our GSM network. In addition, 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.

Smart expanded its roster of services with the commercial launch of its 3G services in May 2006. These services include video calling, video streaming, high speed Internet browsing and special 3G content downloads, offered at rates similar to those of 2G services, thus making Smart the first mobile operator in the Philippines to offer 3G services to the public.

Rates and Discounts

Smart Buddy and *Talk 'N Text* prepaid cards are sold in denominations of Php300, Php500 and Php1,000, which include 33, 83 and 250 free text messages, respectively. The stored value of a prepaid card remains valid for a period of two months from the time a subscriber activates the card. The introduction of our "over-the-air" electronic loading facility *Smart Load* in 2003 made reloading of air time credits more convenient for, and accessible to, consumers. *Smart Load's* over-the-air reloads have evolved to respond to market needs and now come in the following denominations and corresponding expiration periods:

Denomination	Load Expiry	Equivalent Values
Php10	1 day	15 text messages
Php20	1 day	100 text messages
Php30	3 days	30 text messages or 3 local call minutes
Php60	6 days	60 text messages or 6 local call minutes
Php115	12 days	115 text messages or 13 local call minutes
Php200	30 days	200 text messages plus 30 free text messages or 25 local call minutes
Php300	60 days	300 text messages plus 33 free text messages or 40 local call minutes

Smart Load was followed by *Pasa Load*, a derivative service allowing prepaid subscribers to transfer even smaller denominations to other prepaid subscribers. *Pasa Load* comes in denominations of Php2, Php5, Php10 and Php15, all carrying a one-day load expiry. In December 2006, new denominations of Php20, Php30 and Php60 were introduced for *Pasa Load*. *Smart Buddy* subscribers who reload other *Smart Buddy* or *Talk 'N Text* subscribers via *Pasa Load* are charged Php1.00.

Smart Buddy subscribers are charged Php6.50 per minute for calls to *Smart Buddy* and *Talk 'N Text* subscribers and Php7.50 per minute terminating to other cellular or fixed line networks. *Talk 'N Text* calls to *Talk 'N Text* subscribers are charged Php5.50 per minute while calls to *Smart Buddy* and other cellular and fixed line subscribers are charged Php6.50 per minute.

Smart Infinity offers both regular and consumable plans with monthly service fees of Php5,000 and Php8,000 (known as Plan 5000 and Plan 8000, respectively). For regular plans, both plans have the same free text allocation and call and SMS rates but Plan 8000 has a higher free airtime by 393 minutes. Monthly service fees apply for voice calls and local text messages. For consumable plans, free SMS allocation and rates for call and SMS are the same for both these plans. Monthly service fees are applicable to all voice calls, text messages (both local and international), VAS and roaming.

Smart Gold has the following flat rate and consumable plans:

- Flat Rate (regular plans) plans are available with monthly service fees ranging from Php500 to Php8,000 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 these plans are applicable only to local calls and text messages. All other services are billed on top of the monthly service fee. Under these plans, rates for calls to other mobile operators, landlines and NDD calls are Php1.53 higher than calls within the Smart network except for Plan 3500 which is Php1.02 higher; and
- Consumable plans are available with monthly service fees ranging from Php800 to Php8,000 with different amounts of free text messages and different rates beyond the free minutes and text messages. Subscribers to these plans may apply their monthly service fees to all voice calls, text messages (both local and international) and value-added services. Rates for calls to other mobile operators, landlines and NDD calls under these consumable plans are higher by Php0.51 to Php1.02 compared to calls within the Smart network.

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 likewise has in place various promotions to stimulate international usage. In June 2006, *Smart IDD Libre Text Broad* was launched wherein subscribers earned one free international text 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 allowable messages, enable subscribers to send international text to pre-registered recipients of the subscriber's choice on supported overseas carriers.

Charges for point-to-point text messages beyond the allotted free text messages are as follows:

- for *Smart Buddy* subscribers, Php1.00 per message; and

- for *Smart Gold* and *Smart Infinity* subscribers, Php0.51 or Php1.02 per message, depending on air time plan.

Unless otherwise indicated, *Smart Buddy*, *Smart Gold* and *Smart Infinity* subscribers pay the same charges for SMS-based value-added services, as follows:

- Php15.00 per message for international text for *Smart Buddy* subscribers and Php10.00 per message for international text for *Smart Gold* plans and *Smart Infinity* subscribers;
- Php2.50 per message for e-text and information-on-demand services, such as news, stock and entertainment updates;
- Php15.00 for downloading ringtones and logos;
- Php2.50 per *Mobile Banking* and *Smart Money* transaction, such as balance inquiry and fund transfer;
- Php10.00 per subscription download of logos, ringtones;
- Php5.00 per logo or ringtone for *addict mobile*.

For multimedia messaging service, or MMS, and wireless application protocol, or WAP, services, the charges are as follows:

- Php1.00 per MMS for MMS among all Smart subscribers and Php2.00 per MMS for Smart-to-other networks;
- Php15.00 per download of pictures, greeting cards, polyphonic ringtones;
- Php5.00 per MMS for e-text and information-on-demand services (such as news, stock and entertainment updates);
- Php2.50, Php5.00 and Php15.00 for downloading via Smart WAP portal if info-based; if personalization-based, (logo or ringtones), Php15.00 per download); and
- Php10 per 30 minutes when surfing outside the Smart WAP portal.

For voice mail retrieval, all Smart subscribers are charged Php6.50 per minute.

In May 2006, Smart began charging the following for its 3G services:

- Php10.00 for every 30 minutes of Internet/WAP browsing;
- Php15.00 access/transport charge for every 30 minutes of video/audio streaming;
- Php20.00 per day for live TV streaming;
- Php5.00 per audio clip streaming/video clip streaming;
- Php5.00 per daily subscription of video clip streaming;
- Php30.00 per weekly subscription of video clip streaming;
- Php50.00 per full music track download;
- Php30.00 per video ringtone;
- Php20.00 per regular clip download;

- Php30.00 per premium clip download;
- Php30.00 per regular game download; and
- Php50.00 per premium game download.

All other services have the same fees as corresponding 2G services.

Piltel's *Talk 'N Text* prepaid cards are sold in the same denominations as *Smart Buddy* prepaid cards. *Talk 'N Text* offers a flat rate of Php5.50 per minute for domestic calls and voice mail retrieval and offer US$0.40 per minute for international dialing calls to all destinations. *Talk 'N Text* subscribers are charged Php1.00 for a regular text message in excess of free text allocations while for value-added services, such as logo and ringtone downloads, are charged within a range of Php2.50 to Php15.00 per message. Text games range from Php30.00 to Php50.00 per game download.

Smart continues to offer products and services that provide value to its subscribers. For 2006, Smart has focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* – a new variety of top-up providing a fixed number of messages with prescribed validity periods. Current offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 15 messages without expiration and *All Text 20*, which includes 100 on-network messages for Php20, with a validity period of one day. *All Text* also has a voice counterpart in *All Talk 20* which is a call package allowing three calls of up to three minutes each for local on-network calls, valid for one day. Other voice offerings include: (a) the *Flat Rate Call* promotion, which allows a subscriber to make an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 20*, *All Text 10 Bonus*, *All Talk 20* and *Tipid Talk* are now permanent offerings, while the *Flat Rate Call* promotion is valid until March 3, 2007. On January 18, 2007, Smart introduced *LAHATxt*, a top-up service which offers a bundle of text messages available to all networks. *LAHATxt 35* is available to all Smart prepaid subscribers and provides for 100 text messages to all networks for Php35 with a one day validity period. On the other hand, *Talk 'N Text* subscribers have *LAHATxt 20* which allows a subscriber to make 50 text messages to all networks for Php20, also valid for one day.

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 product 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 which 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 over 800,000 retail agents, 80% of which are micro businesses (e.g., neighborhood stores, entrepreneurs, individual roving agents). These micro-retailers must be affiliated with any of Smart's authorized dealers, distributors, sub-dealers and 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 for 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, VSAT and Other Services

Overview

We currently provide wireless broadband, satellite, VSAT and other services through Mabuhay Satellite and Telesat, ACeS Philippines, our satellite phone service provider, Smart Broadband, our wireless broadband provider and Wolfpac, our wireless content operator.

Mabuhay Satellite

Mabuhay Satellite is engaged in the control and operation of 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 the 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 2006, Mabuhay Satellite generated revenues and other income of Php1,157 million and posted a net loss of Php108 million.

Telesat

Telesat operates a nationwide communications satellite network using VSAT technology. Telesat offers voice, facsimile and data transmission services throughout the Philippines, including areas that are underserved or unserved by local fixed line operators. In 2006, Telesat generated revenues and other income of Php9 million and posted a net loss of Php51 million.

Using VSAT technology, we also provide the following services:

- point-to-multipoint data transmission services, usually for intercompany communication for corporate customers;
- private point-to-point services; and
- connectivity for the cell sites of our wireless network in outlying locations.

We lease transponder capacity on Agila II satellite to provide VSAT services.

ACeS Philippines

ACeS Philippines owns approximately 20.23% of AIL. ACeS Philippines generated revenues and other income of Php434 million and posted a net income of Php159 million in 2006. 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 ATPA with National Service Providers in Asia, including PLDT. For further discussion regarding the ATPA, please see "— Contractual Obligations and Commercial Commitments — Unconditional Purchase Obligation" and *Note 20 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7.

Smart Broadband

Smart Broadband is engaged in providing wireless broadband and data services to residential consumers as well as small and medium-scale enterprises in the Philippines. As of December 31, 2006, Smart Broadband had 121,867 wireless broadband subscribers, of which 120,659 residential subscribers are 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.

Smart Bro offers two packages for its wireless broadband service:

- *Smart Bro* Plan 999 – for Internet speed of up to 384 kbps; and
- *Smart Bro* Computer Station Plan 999 – geared towards entrepreneurs and includes a monthly subscription, hardware and software, and merchandising materials.

Wolfpac

Wolfpac is primarily engaged in the business of consumer mobile applications software development and consumer mobile content development and other allied services. Wolfpac is one of the leading content providers and the only Philippine content provider to have been nominated twice at the annual GSM Congress for successes in application developments. Wolfpac generated revenues of Php7 million and posted a net loss of Php119 million in 2006. It aims to provide Smart to have a direct link to the content development community, a key differentiator in wireless communication service. The company has various agreements with third parties for musical compositions, original sound recordings, original movies, caller ringtune and other services.

We also offer *PLDT WeRoam*, a wireless broadband service offering running on Smart's nationwide wireless network (using GPRS, EDGE and WIFi technologies) and PLDT's extensive IP infrastructure. *PLDT WeRoam* provides workers and remote offices, of large, medium and small businesses, with continuous wireless data connectivity, wherever the users may be, to their corporate headquarters' Intranet and/or the global Internet. In addition, we expanded the *PLDT Innovation Laboratory*, or *PLDT Innolab*, in Manila in partnership with the leading technology companies in the country. With the expanded *PLDT Innolab,* more clients as well as people from the academe and government can now be accommodated and can experience more live industry solutions.

In February 2006, *WeRoam* introduced a prepaid option and bundled laptops on easy payment schemes in alliances with PC vendors across the country. *WeRoam* also made higher speed wireless broadband available to the market with the launch of *WeRoam 3G/HSDPA* service in July 2006.

Revenue

Our wireless broadband, satellite, VSAT and other service revenues consist of:

- lease payments from the rental of Mabuhay Satellite's C-band and Ku-band transponders,
- revenues generated from Telesat's nationwide satellite network;
- revenues generated from ACeS Philippines' satellite phone service;
- revenues generated from Smart Broadband's wireless broadband and data services; and
- revenues generated from Wolfpac for wireless data content.

Rates

Mabuhay Satellite leases its transponders to third parties at annual rates of approximately US$0.9 million and approximately US$0.7 million for its C-band and Ku-band transponders, respectively. Telesat provides its VSAT services on a cost plus mark-up basis. 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 a peak-hour rate of Php13.00 per minute and off-peak hour rate 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, ranging from US$0.35 per minute for frequently called countries to US$0.85 per minute for less frequently called countries.

Smart Broadband 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 Php988 per month. Monthly service fees for corporate data services range from Php2,200 to Php48,000 depending on the connection speed requirements.

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 Php45.00.

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.

Local Exchange Service

Overview

Our local exchange service, which consists of our basic voice telephony business, is provided primarily through PLDT.

The following table summarizes key measures of our local exchange service segment as of and for the years ended December 31, 2006, 2005 and 2004:

	Years Ended December 31,		
	2006	**2005**	**2004**
Number of local exchange line subscribers (at year-end)	1,776,647	1,842,507	1,834,306
Number of fixed line employees (at year-end)	8,711	9,197	9,692
Number of local exchange line subscribers per employee	204	200	189
Total local exchange revenues (in millions)	Php16,923	Php18,519	Php20,799
Local exchange revenues as a percentage of total revenues and other income	13%	15%	16%

We also provide local exchange services through our subsidiaries Clark Telecom, Subic Telecom, Maratel and Piltel. Together, these subsidiaries account for approximately 4% of our consolidated fixed line subscribers.

We regularly adjust our rates and introduce new products and services in an effort to increase our number of subscribers, improve our churn management efforts and minimize our credit risk exposure. Since 1999, we have launched a prepaid fixed line service, introduced additional value-added services, introduced initiatives aimed at increasing subscription in areas where we have excess capacity and reduced our installation fees, as described below in the "— Rates" section.

Initially intended as an alternative affordable telephone service for consumers under difficult economic conditions, our prepaid fixed line services now form an important part of PLDT's overall churn and credit risk exposure management and subscriber retention strategy.

Rates

As of December 31, 2006, basic monthly charges for our local exchange service in the Metropolitan Manila area were Php594.17 for a single-party residential line and Php1,237.27 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 Php1,999 for residential customers and Php3,500 for business customers. New products launched on promotion or products bundled on existing services usually waive the installation fee or allows for a minimal installation fee of Php500. Other than basic monthly charges, we do not charge our postpaid subscribers for local calls.

In May 2006, PLDT launched *Pwede! Card*, a convergent product made possible by our NGN capability. *Pwede! Card* is the first reloadable PIN-based prepaid card that provides access to a range of voice and Internet services at affordable rates. *Pwede! Card* is applicable to a host of fixed line and wireless services including local, domestic and international long distance calls, text messaging, payphones and prepaid Internet service. In July 2006, PLDT launched *TelePwede*, a new brand of our prepaid fixed line service. *TelePwede* subscribers are charged Php2 per local call (for an unlimited duration) and Php5 per hour for Internet connection. *TelePwede* subscribers can reload for as low as Php145 per month, which is inclusive of a Php30 load balance that can be used for outgoing calls and a Php115 access charge for incoming calls.

Our prepaid fixed line customers do not pay a basic monthly charge and are charged based on usage. The international and national long distance rates we charge to our prepaid fixed line customers are similar to the rates we charge our postpaid customers. Prepaid fixed line customers are charged based on usage at a rate of Php1.00 per minute for local calls. For a description of these rates, see "— International Long Distance Service — Rates" and "— National Long Distance Service — Rates." Prepaid phone kits, each containing Php500 worth of pre-stored call credits, are sold for Php1,900 per unit.

International Long Distance Service

Overview

Our international long distance service consists of 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, voice over Internet protocol, or VOIP, systems and the network of a consortium of dominant carriers in Asia, where PLDT is a member.

The following table shows certain information about our international long distance business for the years ended December 31, 2006, 2005 and 2004:

	Years Ended December 31,		
	2006	2005	2004
Total call volumes (million minutes)	2,177	2,266	2,373
Inbound call volumes (million minutes)	1,984	2,117	2,216
Outbound call volumes (million minutes)	193	149	157
Inbound-outbound call ratio	10.3:1	14.2:1	14.1:1
Total international long distance revenues (in millions)	Php9,933	Php12,245	Php12,803
International long distance revenues as a percentage of total revenues and other income	7%	9%	10%

International long distance service historically has been a major source of revenue for us. However, due to the steep decline in inbound termination and collection rates and intense competition, revenues derived from our international long distance service had been declining through the end of 2002. We adopted a two-pronged initiative in early 2000 with respect to inbound international service to try to address this issue. First, we lowered our inbound termination rates at that time; by reducing our rates, we reduced the incentive for unauthorized traffic termination and bypass routings by toll bypass operators, and therefore were able to recover some lost traffic; and secondly, we intensified our efforts to identify and contain unauthorized traffic termination and bypass through more effective monitoring of our international trunks, leased lines and local network. International simple resale operation occurs when a company rents an international leased line from a Philippine international gateway operator, aggregates traffic outside the Philippines and carries and terminates this traffic at the local public switch telephone network in the Philippines. This termination of other unauthorized and international simple resale can be used to bypass the local access charge system and is illegal in the Philippines.

We are more selective in accepting incoming traffic from new and startup carriers, particularly second and third tier international carriers. In addition, we adopted a policy requiring prepayment from certain second and third tier international carriers as a prerequisite for accepting their incoming traffic.

We are also pursuing a number of other initiatives to further strengthen our inbound business. 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.

To stimulate call volume growth and prevent further erosion in our share of outbound international call traffic, we have introduced 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.

The table below sets forth the net settlement amounts for international calls handled by PLDT, by country, for the years ended December 31, 2006, 2005 and 2004:

	Net Settlement		
	Years Ended December 31,		
	2006	2005	2004
		(in millions)	
United States	US$54	USS$75	US$75
Saudi Arabia	27	21	18
Canada	18	11	10
United Arab Emirates	15	17	13
Japan	12	25	17
Italy	11	16	16
Hong Kong	8	10	7
Kuwait	5	4	4
Taiwan	4	5	6
Others	31	31	64
Total	US$185	US$215	US$230

Rates

We adopted the U.S. FCC accounting rate benchmark of US$0.38 per minute for inbound international calls on January 1, 2000, which represented a settlement rate of US$0.19 per minute, for international long distance traffic between the Philippines and the United States. Adopting the U.S. FCC benchmark accounting rate one year ahead of the target date of January 1, 2001 allowed us pricing flexibility for inbound call traffic. Termination rates for inbound calls from the United States continued to decline through the end of 2002 to levels below the U.S. FCC benchmark accounting rate under pressure from unauthorized terminations and bypass operations. Termination rates for inbound calls from other countries have also been declining generally. As of December 31, 2002, a substantial portion of PLDT's international inbound traffic terminating on its fixed line network was charged an average termination rate of approximately US$0.08 per minute. PLDT increased its termination rates with carriers accounting for a substantial portion of its international inbound traffic terminating on its fixed line network to US$0.12 per minute effective February 1, 2003.

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.

On September 15, 2005, we introduced *PLDT ID-DSL*, a service that allows overseas calls for registered *myDSL* plan subscribers using a regular PLDT fixed line or a voice pad dialer for as low as US$0.10 per minute or US$0.08 per minute, respectively, depending on the subscribers' DSL plan.

To address the market's demand for low-priced international calls, PLDT modified the *Budget Card*, a prepaid call card, offering a reduced IDD rate of Php5 per minute, as a promotional offer starting September 24, 2005, for calls to 89 overseas destinations including the United States, Canada, Japan and China. Beginning March 4, 2006, *Budget Card* has been further modified to Php3, Php5 and Php8 per minute calls, depending on the destination, and now has 100 overseas destinations. *Budget Cards* are sold in denominations of Php200 and Php100, which must be consumed within 30 days from first use.

National Long Distance Service

Overview

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 calls carried through our backbone network and/or terminating to our fixed line customers.

The following table shows our national long distance call volumes and revenues for the years ended December 31, 2006, 2005 and 2004:

	Years Ended December 31,		
	2006	**2005**	**2004**
Total call volumes (million minutes)	2,251	2,348	1,930
Total national long distance revenues (in millions)	Php6,921	Php7,233	Php6,735
National long distance revenue as a percentage of total consolidated revenues and other income	5%	5%	5%

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.

A substantial portion of our national long distance calls were direct-dialed calls. Operator-assisted calls are charged based on a minimum of three minutes plus operator charges, while direct-dialed calls are charged on a less costly per minute basis.

Rates

Rates for national long distance calls are based on type of service, such as whether the call is operator-assisted or direct-dialed. In line with its move towards rate simplification, PLDT simplified these rates to a flat rate of Php4.50 per minute effective November 2, 2001. At the same time, PLDT simplified its rates for calls terminating to cellular subscribers from a range of Php10.00 per minute to Php16.00 per minute to a uniform rate of Php13.75 per minute. Effective March 1, 2003, PLDT increased the rate for calls terminating to other local exchange carriers from a flat rate of Php4.50 per minute to Php5.00 per minute. In addition, NDD calls originating from and terminating to PLDT was also adjusted to Php5.00 per minute from a flat rate of Php4.50 per minute effective June 8, 2003.

On February 10, 2005, PLDT launched its Php10 per call promotion to any PLDT landline subscriber nationwide and to all Smart and *Talk 'N Text* subscribers. This promotion was launched with the objective of determining a more effective tariff structure that would stimulate landline usage. Under the promotion, NDD calls between any PLDT landline subscriber nationwide and to all Smart and *Talk 'N Text* subscribers are charged Php10 per call instead of being charged on a per minute basis.

On May 12, 2005, PLDT began offering the Php10 per call promotion with an additional Php5 per call exceeding the first three minutes for the same unlimited talktime to Smart and *Talk 'N Text* subscribers. PLDT to PLDT NDD calls below the equivalent Php10 toll usage are charged based on the regular rate per minute. On August 12, 2005, PLDT ceased offering the Php10 per call promotion to Smart and *Talk 'N Text* subscribers.

Effective September 12, 2005, PLDT charged an optional Php20 monthly service fee for PLDT landline subscribers who may want to continue to avail of the Php10 per call promotion for calls within the PLDT network.

On January 7, 2006, the Php10 per call to PLDT, Smart and *Talk 'N Text* subscribers has been made permanent with a Php50 optional monthly service fee for those who may want to avail of the service. The offer introduced a shift from the "per minute" charging and allows PLDT landline subscribers access to approximately 26 million PLDT, Smart and *Talk 'N Text* subscribers at a lower rate. The Php10 per call offer covering calls to Smart and *Talk 'N Text* subscribers was capped, limiting enrollees to those who registered on or before February 24, 2006. PLDT fixed line subscribers, however, can still register and avail of the unlimited Php10 per call service for national long distance calls within the PLDT network.

We continue to evaluate the present rate structure of landline from per minute toll charges to single rate for unlimited calls. This is envisioned to make landline rates competitive with VOIP rates and to revitalize interest in landline usage. Currently, various pricing models are being studied in respect of this new rate plan.

PLDT currently has interconnection arrangement 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 Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations — 2006 Compared to 2005 — Revenues and Other Income — Fixed Line — National Long Distance Service."

Data and Other Network Services

The following table shows information about our data and other network service revenues for the years ended December 31, 2006 and 2005:

	Years Ended December 31,		
	2006	**2005**	**2004**
Consolidated data and other network services (in millions)	Php13,725	Php10,399	Php7,114
Number of DSL broadband subscribers	133,159	88,811	48,289
Number of PLDT Vibe narrowband subscribers	297,250	266,703	257,325

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 this service segment. In 2005, this segment registered the highest percentage growth in revenues among our fixed line services and continued to grow in 2006.

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.

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

In 2006, we continued to broaden our service offerings with the launch of new services and expansion or enhancement of some of the existing ones.

In June 2006, we introduced *Shops.Work Unplugged*, or SWUP, to address the need of retailers and banks for real-time wireless data communication using Smart's GPRS/EDGE network and PLDT's private VPN network. SWUP is a bundled solution that offers wireless VPN connection to retailers' cashiering point-of sale networking requirements, to bank automated teller machines, or ATMs' back-up or remote connections, and to merchants' swipe card terminal access needs. Retailers will now be able to reach out to a bigger market in areas where physical connections are unavailable, expand the banking system with wireless ATMs and release swipe card terminals to more merchants.

In support of the growing data requirements of the small and medium enterprise market, the network footprints of BRAINS, IP-VPN and *Shops.work*, PLDT's private local networking services, have been expanded with the roll-out of NGN facilities in key business areas across the country.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international and domestic data offerings – Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continues to provide us with a stable revenue source.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements.

Information and Communications Technology

We conduct our information and communications technology 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-based solutions and multimedia content delivery. ePLDT's principal businesses are the operation of: (a) call centers through Vocativ, Parlance and *Ventus*; (b) BPO; (c) an Internet data center under the brand name *Vitro*™; and (d) Internet and gaming through Infocom, netGames, Digital Paradise, Digital Paradise Thailand, Level Up! and Airborne Access. Our ICT segment registered revenues of Php7,018 million, Php3,438 million and Php2,415 million, accounting for 5%, 3% and 2% of our revenues and other income for 2006, 2005 and 2004, respectively.

Call Centers

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its call center 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 aggregate, we own and operate approximately 5,600 seats with 5,130 customer service representatives, or CSRs, as at December 31, 2006 compared to approximately 3,350 seats with 3,625 CSRs as at

December 31, 2005. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center site count to seven as at December 31, 2006.

Business process outsourcing

ePLDT acquired a 100% equity interest in SPi and its direct and indirect Philippine and offshore subsidiaries on July 11, 2006. SPi is the second largest pure-play BPO and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. On August 11, 2006, SPi acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia.

Internet and Gaming

ePLDT owns 99.6% interest in Infocom, one of the country's leading 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 182 branches which assumed the assets of Netopia Computer Technologies, Inc. and the brand *Netopia.* ePLDT also has an 80%-interest in netGames, a publisher for Massively Multi-player Online Game 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; 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. The Philippine Board of Investments granted *Vitro*™ pioneer status, which entitles it to tax and other governmental incentives. *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.

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. In 2006, Smart has 42 mobile switching centers and 61 text messaging service centers and 6,099 base stations in operation after having added 117 base stations to its nationwide cellular network in 2006. As of December 31, 2006, 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. Piltel, on the other hand, has an operating spectrum of 11.5 MHz out of the 12.5 MHz allocated in the 800 MHz band.

Due to its access to PLDT's network assets, Smart has been able to achieve significant capital expenditure savings, which 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.

The coming years will see continued increases in coverage (particularly indoor), as well as new types of BTS for outdoor, street level and commercial office coverage. Smart has introduced the Nokia *ConnectSite* GSM solution for wider coverage and increased efficiencies in underserved areas of the Philippines. The new base station equipment called *ConnectSite* can be up to 25% more efficient than traditional outdoor cell sites. Smart is one of the very first operators in the world to adopt this solution.

Smart was awarded a 3G license by the NTC on December 29, 2005. 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. 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 of December 31, 2006, 36 of Smart's mobile switching centers and 193 of Smart's cell sites are housed in PLDT's fixed line complexes while 242 of Smart's cell sites are co-located with Piltel. These operational synergies have allowed Smart to reduce switch installation time from three months to five weeks.

Wireless Broadband, Satellite, VSAT and Other Services

Smart Broadband 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. More than 1,700 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.

Telesat operates a national communications satellite network using VSAT technology to provide voice, facsimile, video and data transmission services to areas in the country that are still underserved or unserved by local telephone operators. Telesat leases transponder capacity from Agila II to provide VSAT services such as multipoint-to-multipoint and point-to-multipoint data transmission services, private point-to-point service, and connectivity for the cell sites of our cellular network in outlying locations.

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 provide 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.

The following table gives some basic measures on the development of our domestic telephone network as of December 31, 2006, 2005 and 2004:

	As of December 31,		
	2006	**2005**	**2004**
Number of central office exchanges	184	183	183
Number of fixed line subscribers	1,776,647	1,842,507	1,834,306
Employees per 10,000 local exchange subscribers	49	50	53

We have our own 6,400-kilometer domestic fiber optic network, 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 PLDT*, a cable ship which we lease from NTT World Engineering Marine Corporation pursuant to a five-year Chartered Arrangement Maintenance Contract to maintain the 2,400 kilometers of submarine cable comprising the submerged portion of our DFON. The five-year charter lease on *CS PLDT* expired in August 2005. Along with the renewal of a two-year lease in January 2006, we renamed the cable ship *CS VEGA*.

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

International

We provide international network services using our three international gateway switching exchanges. As of December 31, 2006, our international long distance facilities allow direct correspondence with 49 countries/territories (representing 89 correspondents) and can reach 420 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
PacRim East	Hawaii and New Zealand
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.

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.

Prior to July 1, 2001, PLDT retained an origination charge of Php2.00 per minute on every call terminating to the network of Smart or Globe Telecom, Inc., or Globe. From July 1, 2001 to December 31, 2001, Smart and Globe charged PLDT Php6.50 per minute pursuant to an amended interconnection agreement. The said arrangement also applied to national long distance calls originating from PLDT and terminating to the cellular network of either Smart or Globe removing any distinction between access charges for local calls and national long distance calls. For local calls originating from PLDT and terminating to the cellular networks of Smart and Globe, Smart and Globe charged PLDT a rate of Php4.50 per minute effective January 1, 2002. Effective January 1, 2004, calls terminating to cellular subscribers originating from fixed line subscribers will be charged a termination rate of Php4.00 per minute, a decrease from the previous Php4.50 per minute.

Effective January 1, 2003, local access for cellular operators, including Smart, which terminate calls to PLDT’s fixed line network increased from Php2.00 per minute to Php2.50 per minute, which further increased to Php3.00 per minute effective January 1, 2004.

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.

Effective February 1, 2003, international calls terminating to PLDT’s fixed line network were charged a termination rate of US$0.12 per minute from the previous rate of US$0.08 per minute. Also, international calls terminating to Smart’s cellular network were charged a termination rate of US$0.16 per minute, an increase from the previous termination rate of US$0.12 per minute.

Effective 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 and Smart provide telecommunications services pursuant to legislative franchises which expire, in the case of PLDT, on November 28, 2028 and, in the case of Smart, on March 27, 2017. 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.

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 is 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 now pending with the NTC. See Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risks and Uncertainties — Risks Relating to Us — Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises and rates."

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 August 26, 2002, Smart was granted a CPCN to install, operate and maintain nationwide global mobile personal communications via satellite which shall also expire upon expiration of its franchise. Smart’s provisional authority to establish, install, maintain, lease and operate an international private leased circuit is effective until November 6, 2006. Prior to its expiration, Smart filed for an extension of this provisional authority on the issuance of the CPCN, which remains pending. On July 22, 2002, Smart was granted separate CPCNs to operate a cellular mobile telephone system and an international gateway facility.

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.

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

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

Smart is also required to pay annual license fees of Php115 million based on the 15 MHz awarded to the Company.

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

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	824-835/869-880 MHz	11.0 MHz
		845-846.5/890-891.5 MHz	1.5 MHz
Smart Broadband	Wireless broadband	2400-2483.5 MHz *	73 MHz
		3400-3590 MHz *	94 MHz
		5470-5850 MHz *	123 MHz

* *Smart Broadband 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 is currently engaged in disputes with the NTC over some of the assessed fees. For more information on the disputes involving PLDT, see Item 3. "Legal Proceedings —NTC Fees."

On May 27, 1998, Smart filed an Urgent Ex Parte Motion and Manifestation regarding the permit fee in the amount of approximately Php113 million assessed by the NTC for the CPCN pertaining to Smart's Integrated Local Exchange Telephone Service, Domestic Toll Service and Private Line Service (NTC Case No. 93-482). Smart contended that the fee should have been calculated on the basis of the actual local exchange carrier project cost, and that therefore the fee should be Php70 million. Although the NTC has not yet resolved this issue, Smart has already paid Php50 million in respect of this assessment as of the date of filing this annual report.

In a letter dated April 12, 2005, the NTC requested that Smart pay the following permit fees in respect of its CPCNs and provisional authorities:

Case No.	**Fee**
93-482	Php62,510,950
94-220	878,830
96-248	6,815,500
Total	Php70,205,280

In its letter dated May 13, 2005, Smart reiterated its petition that the basis for computation of the permit fees should be amended and cited the pendency of its Urgent Ex Parte Motion and Manifestation in NTC Case No. 93-482.

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 following:

- the fifth anniversary of the date the law became effective; and
- the fifth anniversary of the date of the entity's commencement of commercial operations.

PLDT and Piltel have complied with this requirement. As Smart has not conducted a public offering of its shares by August 2004, the Philippine Congress may revoke the franchise of Smart for failure to comply with the requirement under R.A. 7925 on the public offering of its shares by August 2004. A *quo warranto* case may also be filed against Smart by the Office of the Solicitor General of the Philippines on the ground of violation of R.A. 7925 for the failure of Smart to conduct a public offering of its shares. However, Smart believes that it did not violate the terms of its franchise by not conducting an initial public offering by August 2004. Smart believes that the period stated in R.A. 7925 and in the other legislative franchises within which to conduct a public offering and listing of shares of stock of telecommunications companies should be deemed as merely directory and not mandatory. The DOJ has rendered an opinion that the three-year period fixed under the Downstream Oil Industry Deregulation Act of 1998 (R.A. 8479) for the conduct of the initial public offering of shares in entities engaged in the oil refinery business should be regarded as merely directory. Smart believes that this DOJ opinion should also apply to the period for the conduct of initial public offering of telecommunications companies. Moreover, Smart believes that it should be deemed to have complied with the requirement of making a public offering of its shares since PLDT owns 100% of the outstanding shares of Smart. The purpose of R.A. 7925 in requiring telecommunications companies to make a public offering of their shares, which is to broaden public ownership in telecommunications entities, is already realized in PLDT, being a publicly listed company, owning 100% of Smart. In September 2004, Senate Bill No. 1675 was filed seeking to amend Section 21 of R.A. 7925. The bill seeks to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-third of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. The bill is currently pending in the Philippine Senate. PLDT regularly evaluates various strategic options with respect to its capital structure.

The Philippine Congress is considering two Bills that relate to the imposition of franchise tax on telecoms companies. House Bill, or HB, 1469 proposes to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. HB 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 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.

Competition

The enactment of the Public Telecommunications Policy Act of the Philippines in March 1995 consolidated the government's various policy issuances governing the telecommunications industry and reaffirmed, among other things, the policy of liberalizing the industry and opening up the telecommunications market to new entrants. 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, Islacom, Digital Telecommunications Philippines, Inc., or Digitel, and Express Telecom. Globe acquired Islacom (now known as *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 95% of 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 5% of the cellular market as of December 31, 2006. In December 2005, the NTC awarded 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 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, geographic coverage and attractiveness of packaged services. Smart's network leads the industry in terms of coverage with 6,099 base stations as of December 31, 2006.

In October 2004, *Sun Cellular* launched its "24/7" service whereby its prepaid subscribers were offered unlimited calls and text messaging within the *Sun Cellular* network over a certain period for a fixed fee (e.g. Php100 for 10 days and Php250 for 30 days of unlimited calls and text messaging). On March 15, 2005, the Php250 monthly fee was increased to Php350 while the duration of Php100 service was shortened to seven days. *Sun Cellular* postpaid subscribers can utilize a similar feature by adding Php350 per month to their monthly service fee. The launch of *Sun Cellular's "24/7"* promotion brought out a market segment that is attracted to "bucket" plans for voice and text services. On March 8, 2005, Touch Mobile, a prepaid GSM service offering of *Innove*, launched its "Todo Tawag, Todo Text" promo wherein Touch Mobile subscribers have the option to avail of unlimited local calls and text messaging among Touch Mobile subscribers. The promotion covers local voice calls and text messaging only between Touch Mobile subscribers for Php150 with a validity of 15 days. On March 11, 2005, Smart launched "*Smart 25*[8]", a promotion open to all Smart and *Talk 'N Text* prepaid subscribers who wish to avail of unlimited on-network voice calls and unlimited on-network text messaging. On March 22, 2005, Globe launched its own unlimited call and text promotion wherein Globe subscribers could call and text other Globe subscribers for a fee of Php300. 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 which are designed to encourage incremental usage from existing subscribers and also to attract new subscribers. On December 18, 2005, Touch Mobile unveiled a new promotional rate of Php0.75 per message sent exclusively for Touch Mobile subscribers. On December 17, 2005, Globe introduced its Php0.10 per second call rate exclusively for its prepaid and postpaid subscribers.

On February 1, 2007, Globe implemented its new "Unlimited Text" offering which replaced the "Unlimitxt" promo. Under the "Unlimited Text" promo, prepaid subscribers could pay Php25 for unlimited on-network SMS and Php0.75 for each message sent to other networks, a daytime and nighttime rate of Php15 and Php10, respectively, all with one day validity. Subscribers can also opt to pay Php80 for unlimited on-network texting valid for four days. With the previous "Unlimitxt" service, unlimited on-network text messaging cost Php15, Php25 and Php50 with a validity of one, two and five days, respectively.

On February 5, 2007, the NTC was compelled to issue a suspension order on Globe's "Unlimited Text" offer following a petition filed by a consumer advocacy group which stated that "Globe has successfully obtained NTC approval for a 100% hike in bulk prices for text messaging." Unlimited on-network texting which was previously priced at Php50 for five days, or Php10 a day, would now cost Php80 for four days, or Php20 a day under the new plan.

Cellular operators are also competing actively against each other in launching innovative products and value-added services. The growing range of cellular products and services now include text messaging, 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 carrying out its 3G network roll-out.

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 hindering them from swapping the existing SIM for a SIM of a competing operator. However, subscribers may 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.

From October 2003 to May 2005, "SIM-swapping" became a prevalent promotional activity in the cellular industry. In "SIM-swapping," prepaid cellular subscribers had the ability to switch from one cellular operator to another by simply exchanging their current prepaid SIM card for another operator's SIM card with a certain amount of preloaded air time credits at no cost. These "SIM-swapping" activities gave rise to a situation where certain subscribers regularly swapped their SIM card between cellular operators upon full use of the pre-stored air time. As a result, our cellular subscriber base contained a certain number of transient subscribers at any one point in time. In May 2005, we terminated our "SIM swapping" promotions; as a result, our churn rates increased in the third and fourth quarters of 2005, but leveled off beginning in the first quarter of 2006.

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.

Over the past couple of years, however, competition among local exchange operators has reduced as certain operators have faced financial difficulties or have shifted strategic focus away from the fixed line business to cellular services. On the other hand, we are facing increasing competition from cellular operators mainly due to substitution of cellular services for fixed line services.

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 the illegal operation of international simple resale; (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 previously utilizing traditional means of calling long distance, such as text messaging, e-mail, Internet telephony and the establishment of virtual private networks for several corporate entities, further heightening the competition.

With respect to inbound calls into the Philippines, we adopted the U.S. FCC benchmark accounting rate of US$0.38 per minute for inbound international calls which represented a settlement rate of US$0.19 per minute, one year ahead of the target date of January 1, 2001. This provided us with increased flexibility to terminate more U.S. traffic into the Philippines, minimize unauthorized traffic termination through international simple resale operations and recover traffic lost due to bypass routings. 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. Effective February 1, 2003, after lengthy negotiations with approximately 100 telecommunications operators around the world, we increased the termination rate with carriers accounting for a substantial portion of our international inbound traffic terminating on its fixed line network to US$0.12 per minute. Prior to the increase in termination rates, a substantial portion of PLDT's international inbound traffic terminating on its fixed line network was charged an average termination rate of approximately US$0.08 per minute. See Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations — 2006 Compared to 2005 — Consolidated Revenues and Other Income— Fixed Line — International Long Distance" and "— Risks and Uncertainties — Risks Relating to Us — Our results of operations have been, and may continue to be, adversely affected by lower U.S. dollar revenues caused by competition in international long distance service" for further discussion.

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. *Sun Cellular* and Globe have also launched new pricing schemes to grow their outbound call volumes.

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 Internet service providers 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.

On January 5, 2005, *Globelines* launched a plan that offered all its subscribers free NDD calls nationwide. Digitel's flat rate for Sun-to-Sun calls was positioned not only as a strong alternative to other cellular services, but also as a replacement to the landline. On February 10, 2005, PLDT launched its Php10 per call promotion to any PLDT landline subscriber nationwide and to all Smart and *Talk 'N Text* subscribers. On May 12, 2005, PLDT began offering the Php10 per call promotion with an additional Php5 per call for the same unlimited talktime to Smart and *Talk 'N Text* subscribers. On August 12, 2005, PLDT ceased offering the Php10 per call promotion to Smart and *Talk 'N Text* subscribers. Effective September 12, 2005, PLDT charged an optional Php20 add-on monthly service fee for PLDT landline subscribers who may want to continue to avail of the Php10 per call promotion for calls within the PLDT network. On December 12, 2005, the Php10 per call to PLDT, Smart and *Talk 'N Text* subscribers has been made permanent with a Php50 optional monthly service fee for those who may want to avail of the service. The promotion introduces a shift from the "per minute charging." The promotion allows PLDT landline subscriber access to approximately 26 million PLDT, Smart and *Talk 'N Text* subscribers at a lower rate. The Php10 per call option covering calls to Smart and *Talk 'N Text* subscribers was capped, limiting enrollees to those who registered on or before February 24, 2006. PLDT fixed line subscribers, however, can still register and avail of the unlimited Php10 per call service for national long distance calls within the PLDT network.

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, call centers, BPO, 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, customer service and quality of service.

Principal Competitors

The table below sets out our principal competitors' market share and other relevant information for the year 2006:

	Asset Base	Operating Revenues	Net Income (Loss)	Market Share[(1)] Fixed Line	Market Share[(1)] Cellular
(in millions)					
Globe[(2)]	Php124,580	Php59,949	11,755	11%	37%
Digitel[(3)]	55,246	5,839	(881)	12%	5%
Bayan Telecommunications[(3)]	18,260[(4)]	422	(1,007)	8%	–

(1) Based on subscriber base.
(2) Based on audited 2006 Form 17-Q filed with the PSE.
(3) Based on unaudited 3Q06 Form 17-Q filed with the PSE.
(4) Based on 2005 Form 17-A filed with the PSE

Competitive 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 over 75 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 26 million fixed line and cellular subscribers as of December 31, 2006, we have the leading market position 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 61% of our consolidated revenues and other income in 2006 are now derived from our wireless business segment. Fixed line revenues, which represent 37% and 39% of our consolidated revenues and other income in 2006 and 2005, respectively, have remained stable over the past three years despite pressures on traditional fixed line voice revenues, resulting from increases in our fixed line data and other network 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 have commenced the upgrade to NGN and the roll out of wireless broadband 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 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 NTT Communications, DoCoMo and First Pacific. 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.

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.

Major Suppliers

Substantially all the telecommunications equipment thus far obtained in connection with our development programs has been purchased outside the Philippines, and we expect that a large portion of the equipment requirements of our future development programs will also be purchased from foreign sources. Since 1998, Nokia Telecommunications OY has been Smart's principal supplier of hardware and software equipment for its GSM network. On January 18, 2006, Smart announced that it has signed an agreement with Nokia for the supply of 3G equipment and services. For PLDT, Nortel has been the selected supplier for PLDT's DFON network, with more than 10 expansions undertaken in the past six years. Likewise, for PLDT's NGN roll-out, UTStarcom was selected as the principal supplier for hardware and software equipment. A significant source of financing for our equipment purchases has been and, subject to the availability of credit, will continue to be foreign loans requiring repayment in currencies other than Philippine pesos, principally U.S. dollars.

Governmental Regulations

As a public utility, we are subject to governmental regulations with respect to our operations, services, rates and ownership. We believe that we are in compliance with all applicable governmental regulations and that our relations with government regulators are satisfactory despite our protests against NTC's assessments of certain fees (see Item 3. "Legal Proceedings — NTC Fees"). For further discussion on governmental laws and regulations affecting our business, see Item 6. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risks and Uncertainties — Risks Relating to Us — Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises and rates."

Compliance with Environmental Laws

We have not been subject to any material fines or legal or regulatory actions 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.

Employees and Labor Relations

As of December 31, 2006, we had 28,219 employees within the PLDT Group, with 5,358, 8,711 and 14,150 employees for wireless, fixed line and ICT groups, respectively. PLDT has 8,526 employees at the end of 2006, of which 44% were rank-and-file employees, 51% were management/supervisory staff and 5% were executives. This number represents a decrease of 493, or approximately 6%, from the staff level as of the end of 2005, 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 11,786, or 58%, by the end of 2006. As of December 31, 2005, we had 18,926 and 9,013 employees under the PLDT Group and PLDT, respectively.

PLDT has three employee unions, the members of which in aggregate represent 23% 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 CBA covering the period from November 9, 2006 to November 8, 2008. This CBA provides each member a signing bonus equivalent to one month salary (computed at the salary rate prevailing prior to November 9, 2007) plus Php15,000; monthly salary increases of Php2,150, Php2,200 and Php2,550 for the first year, second year and third year, respectively; an increase in 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; Php35,000 funeral assistance for death of dependent. Other highlights of this CBA include increases in 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 new three-year Collective Bargaining Agreement, or CBA, covering the period from January 1, 2005 to December 31, 2007. Effectivity date has been negotiated to be moved from March to January. This CBA provided each member monthly salary increases of 8% of basic pay or Php2,000, whichever is higher, for the first year; 10% of basic pay or Php2,700, whichever is higher, for the second year; and another 10% of basic pay or Php2,400, whichever is higher, for the third year. Other highlights of this CBA were improvements of existing benefits and a one-time signing bonus of Php33,000, including a

Php3,000 goodwill bonus, for each member of PSSU. Furthermore, a Php4,000 one-time clothing accessory allowance was also provided.

On January 20, 2005, PLDT and *Gabay ng Unyon sa Telekomunikasyon ng mga Superbisor*, or GUTS, our supervisors' union, concluded and signed a new three-year CBA covering the period from January 1, 2005 to December 31, 2007. This CBA provided each member monthly salary increases of 8% of basic pay or Php2,000, whichever is higher, for 2005; 10% of basic pay or Php2,700, whichever is higher, for 2006; and another 10% of basic pay or Php2,400, whichever is higher, for 2007. Other highlights of this CBA were improvements of existing benefits and a one-time signing bonus of Php33,000, including a Php3,000 goodwill bonus, for each member of GUTS.

In 2002, PLDT decided to rationalize the operations of its operator-assisted call-handling units located principally in certain of its provincial exchanges. In recent years, operator-assisted calls have dramatically declined due to the popularity of direct dialing and other alternative means of communications, such as e-mail and text messaging. Consequently, 322 employees of PLDT manning its regional operator services, where call volumes had significantly declined, were separated from service with an enhanced retirement/redundancy pay package, effective December 31, 2002. In response to this, the MKP filed a Notice of Strike with the Department of Labor and Employment, or DOLE, on November 8, 2002, and filed a complaint against PLDT for alleged unfair labor practices. After a series of failed conciliation meetings between representatives of PLDT and MKP before a DOLE conciliator, MKP staged a 14-day strike beginning on December 23, 2002. The strike ended on January 6, 2003 by virtue of a return-to-work order issued by the DOLE Secretary. MKP also brought an unfair labor practice case before the National Labor Relations Commission or NLRC, assailing the legality of the implemented redundancy. On October 28, 2005, NLRC ruled in favor of the validity of the redundancy.

Pension and Retirement Benefits

Defined Benefit Plans

We have defined benefit pension plans, covering substantially all of our employees, except Smart, require contributions to be made to 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 wherein Smart's obligation is limited to specified contribution to the plan. It is being financed by the participating companies (Smart and its subsidiary, I-Contacts) and employees' contribution is optional.

We spent Php1,003 million for pension, retirement and similar benefits for our employees for the year 2006. In addition, Php445 million was recognized in respect of 448 employees who availed of the enhanced separation package under the PLDT's manpower rightsizing program. For more information about the benefit plan, see *Note 21 – Employee Benefits* and *Note 5 – Income and Expenses* to the accompanying audited consolidated financial statements in Item 7.

Item 2. Description of Property

We own four office buildings located in Makati City and own and operate 184 exchanges nationwide, of which 61 are located in the Metropolitan Manila area. The remaining 123 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 of December 31, 2006, we had 4,377 cellular cell sites and 6,099 base stations.

As of December 31, 2006, our principal properties, excluding property under construction, consisted of the following, based on book values:

- 64% consisted of cable and cellular facilities, including our domestic fiber optic network, subscriber cable facilities, inter-office trunking and toll cable facilities and cellular facilities;
- 19% consisted of central office equipment, including three international gateway facilities, six pure national toll exchanges and 15 combined local and toll exchanges, and communications satellite;
- 11% consisted of land and improvements and buildings, which we acquired to house our telecommunications equipment, personnel, inventory and/or fleet;
- 2% consisted of information origination and termination equipment, including, pay telephones and radio equipment installed for customers use, as well as 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 7.

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

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 these lease arrangements, see *Note 22 – Contractual*

Obligations and Commercial Commitments to the accompanying audited consolidated financial statements in Item 7.

Item 3. Legal Proceedings

Except as disclosed in the following paragraphs, PLDT or any of its subsidiaries is not a party to, and none of their respective property is subject to, any pending legal proceedings which 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 unlawful monopoly and give equal and fair opportunity to other service corporations." The Solicitor General cited constitutional and statutory grounds for his action. These include 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. 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 remains inactive.

NTC Fees

Since 1994, following the NTC's rejection of PLDT's formal protest against the assessments by the NTC of permit, supervision and regulation fees, PLDT and the NTC have been involved in legal proceedings before the Court of Appeals and the Supreme Court. The basis of these legal proceedings is the NTC's inclusion of stock dividends and capital in excess of the par value of stock in computing these fees, and the NTC's assessment of administrative fees for the increase in PLDT's authorized capital stock even in the absence of NTC's performance of regulatory services. As of December 31, 2006, PLDT has paid, since 1994, a total amount of Php2,219 million in supervision and regulation fees of which Php1,956 million were paid under protest. See *Note 23 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 7 for further discussion.

Taxation

National Internal Revenue Taxes

PLDT has filed various cases against the Commissioner of the Bureau of Internal Revenue for refunds and/or tax credit 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; 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 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 which was opposed by the CIR and is currently still pending with the Court of Tax Appeals.

The case of the claim for refund of erroneously paid withholding tax on separation pay is still pending with the Supreme Court.

Local Business and Franchise Taxes

PLDT currently faces various local business and franchise tax assessments by different local government units.

PLDT believes that under Philippine laws then prevailing, it is exempt from payment of local franchise and business taxes to local government units and it is contesting the assessment of these taxes in all these cases. For more information, see *Note 23 – Provisions and Contingencies* to the accompanying audited consolidated financial statements in Item 7.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this annual report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

Common Capital Stock and ADSs

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, and, prior to October 19, 1994, were listed and traded on the American Stock Exchange and Pacific Exchange in the United States. 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 common share with a par value of Php5 per share.

In 2006, a total of 39.6 million shares of PLDT's common capital stock were traded on the Philippine Stock Exchange. During the same year, the volume of trading was 69.7 million ADSs on the New York Stock Exchange.

On December 28, 2006, PLDT issued a notice of its intent to delist the ADSs from NYSE Arca (but will continue and maintain the listing of the ADSs on the NYSE) since there is no additional advantage in having dual listing of the ADSs on both the NYSE and NYSE Arca. The delisting from NYSE Arca will eliminate duplicative and administrative burdens and costs. The actual delisting from the NYSE Arca became effective last February 12, 2007.

As of December 31, 2006, approximately 11,295 stockholders were Philippine persons and held approximately 36% of PLDT's common capital stock. In addition, as of December 31, 2006, there was a total of approximately 37 million ADSs outstanding, substantially all of which PLDT believes were held in the United States by 387 holders.

High and low sales prices for PLDT's common shares on the Philippine Stock Exchange and ADSs on the New York Stock Exchange for each of the full quarterly period during 2006 and 2005 and for the two months ended February 28, 2007 were as follows:

	Philippine Stock Exchange		New York Stock Exchange	
	High	**Low**	**High**	**Low**
2007				
January	Php2,820.00	2,385.00	US$56.62	US$48.20
February	2,675.00	2,285.00	54.10	45.25
2006				
First Quarter	Php1,930.00	Php1,675.00	US$38.09	US$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				
First Quarter	Php1,495.00	Php1,310.00	US$27.75	US$23.50
Second Quarter	1,645.00	1,330.00	30.07	24.10
Third Quarter	1,715.00	1,520.00	30.59	27.28
Fourth Quarter	1,860.00	1,630.00	34.35	28.88

Holders

As of February 28, 2007, there were 12,733 holders of record of PLDT's common shares. Listed below were the top 20 common shareholders, including their nationalities, the number of shares held, the amount of their holdings, and the approximate percentages of their respective shareholdings to PLDT's total outstanding common stock:

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Name of Holder of Record	Nationality	Number of Shares Held	Amount of Holding	Approximate % to Total Outstanding Common Stock
1. PCD Nominee Corporation	Various	57,045,013	Php285,225,065	
	Filipino	15,233,544	76,167,720	38.33
2. J. P. Morgan Asset Holdings (Hong Kong) Limited	Chinese	36,901,643	184,508,215	19.57
3. Philippine Telecommunications Investment Corporation	Filipino	26,034,263	130,171,315	13.81
4. Metro Pacific Resources, Inc.	Filipino	17,112,534	85,562,670	9.08
5. NTT Communications Corporation	Japanese	12,633,487	63,167,435	6.70
6. NTT DoCoMo, Inc.	Japanese	12,633,486	63,167,430	6.70
7. Social Security System	Filipino	5,024,789	25,123,945	2.66
8. Great Pacific Life Assurance Corp.	Filipino	726,374	3,631,870	0.39
9. Pan Malayan Management & Investment	Filipino	466,400	2,332,000	0.25
10. Malayan Insurance Co., Inc.	Filipino	460,566	2,302,830	0.24
11. Manuel V. Pangilinan	Filipino	217,350	1,086,750	0.12
12. Cede & Co.	American	201,523	1,007,615	0.11
13. Cygnet Development Corp.	Filipino	170,000	850,000	0.09
14. Calyon	French	142,160	710,800	0.08
15. Albert del Rosario	Filipino	100,024	500,120	0.05
16. Tortorici Edward &/or Anita	American	96,874	484,370	0.05
17. Cesar C. Zalamea	Filipino	69,992	349,960	0.04
18. PLDT Adjustment Account	Filipino	68,446	342,230	0.04
19. China Banking Corporation	Filipino	62,446	312,230	0.03
20. Enrique T. Yunchengco Inc.	Filipino	59,868	299,340	0.03
		185,460,782	**Php927,303,910**	

Dividends

The following table shows the dividends declared to common shareholders for the year ended December 31, 2006:

	Date			Amount	
Class	**Declaration**	**Record**	**Payable**	**Per Share**	**Total**
					(in million pesos)
Common Stock	February 27, 2006	March 20, 2006	April 20, 2006	28.00	5,080
	August 8, 2006	August 21, 2006	September 21, 2006	50.00	9,379
	March 6, 2007	March 20, 2007	April 20, 2007	50.00	9,428

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements and the required prior written consents of certain creditors and preferred stockholders (for stock dividends), under certain conditions, in the declaration and payment of dividends as discussed in *Note 17 – Interest-bearing Financial Liabilities* and *Note 16 – Equity* to the accompanying audited consolidated financial statements in Item 7. 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 16 – Equity* to the accompanying audited consolidated financial statements in Item 7). Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, which acts as the dividend-disbursing agent, converts the peso dividends into U.S. dollars at the prevailing exchange rates, and remits the dollar proceeds abroad, net of withholding tax.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes as of and for the years ended December 31, 2006, 2005 and 2004 included elsewhere in this Annual 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.

Selected Financial Data and Key Performance Indicators

	Consolidated Financial Data		
	Years Ended December 31,		
	2006	2005	2004
	(in millions, except ratio of earnings to fixed charges)		
Statement of Income Data:			
Revenues and other income	Php133,641	Php126,044	Php126,204
Wireless	81,546	79,158	79,723
Fixed line	54,219	49,990	48,810
Information and communications technology	7,018	3,438	2,415
Expenses	91,452	87,429	93,272
Net income attributable to equity holders	35,116	34,112	28,031
Net Income	35,319	34,479	27,959
Net income margin	26%	27%	22%
Balance Sheet Data:			
Cash and cash equivalents and short-term investments	25,197	32,809	31,194
Total assets	241,892	250,197	264,751
Interest-bearing financial liabilities – net of current portion	65,244	97,178	136,228
Long-term debt – net	63,769	84,860	121,012
Total equity	104,523	74,369	47,187
Other Data:			
Net cash provided by operating activities	67,739	76,213	74,497
Capital expenditures	20,674	14,990	21,162
Net cash used in investing activities	35,790	11,694	23,939
Net cash used in financing activities	44,428	60,794	42,540

Overview

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

- *Wireless* — wireless telecommunications services provided by Smart and Piltel, our cellular service providers, Smart Broadband, our wireless broadband provider; Wolfpac, our wireless content operator; and Mabuhay Satellite, ACeS Philippines and Telesat, our satellite, VSAT and other services operators;

- *Fixed Line* — fixed line telecommunications services are primarily provided through PLDT. We also provide fixed line services through PLDT's subsidiaries PLDT Clark Telecom, Subic Telecom, Maratel, Piltel and BCC, which together account for approximately 4% of our consolidated fixed line subscribers, and PLDT Global; and

- *Information and Communications Technology* — information and communications infrastructure and services for Internet applications, Internet protocol-based solutions and multimedia content delivery provided by PLDT's subsidiary ePLDT, Inc., or ePLDT; call center services provided under *ePLDT Ventus*, including Parlance Systems, Inc., or Parlance, and Vocativ; BPO provided by SPi (consolidated on July 11, 2006); Internet access and gaming services provided by ePLDT's subsidiaries, Infocom, Digital Paradise, Digital Paradise Thailand, Ltd., or Digital Paradise Thailand, netGames, Airborne Access, Level Up!; and e-commerce, and IT-related services provided by other investees of ePLDT, as discussed in *Note 9 – Investments in Associates* to the accompanying audited consolidated financial statements in Item 7.

Wireless

We provide cellular and wireless broadband, satellite, VSAT and other services under our wireless business, contributing about 96% and 4% of our wireless service revenues, respectively, in 2006. Rapid growth in the cellular market has resulted in a change in our revenue composition and sources of our revenue growth. Starting 2003, cellular service was our major revenue source surpassing fixed line revenues. As of December 31, 2006, Smart and Piltel, which offer services using Smart's network, had the largest and third largest cellular subscriber bases, respectively, in the Philippines. In addition, Smart's and Piltel's subscribers increased by 18% in 2006, resulting in our aggregate system-wide cellular subscribers outnumbering our fixed line in service by more than 13 to 1 at the end of 2006. 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 wireless revenues accounted for 57%, 60% and 61% of our total revenues and other income for 2006, 2005 and 2004, respectively.

Fixed Line

Our fixed line business provides local exchange service, international and national long distance services, data and network services and miscellaneous services. Our fixed line business is one of our major revenue sources contributing 38% of our total revenues and other income in 2006. Our fixed line revenues' contribution to total revenues and other income have declined to 38% and 37% in 2005 and 2004, respectively, largely due to the substantial growth in our wireless business. Local exchange revenues have declined owing to shift in subscriber preference from postpaid to prepaid service with lower ARPUs. National and international 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 information and communications technology businesses through ePLDT. ePLDT's principal businesses are the operation of an Internet data center under the brand name *Vitro*™; one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Vocativ and Parlance; BPO provided by SPi; Internet and 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 5% of our total revenues and other income in 2006, 2% in 2005 and 2% in 2004.

Results of Operations

The table below shows the contribution by each of our business segments to our revenues and other income, expenses and net income (loss) attributable to equity holders for the years ended December 31, 2006, 2005 and 2004. 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, 2006					
Revenues and Other Income	Php81,546	Php54,219	Php7,018	(Php9,142)	Php133,641
Service	78,383	49,134	6,337	(8,920)	124,934
Non-service	2,457	79	553	(122)	2,967
Other income	706	5,006	128	(100)	5,740
Expenses	44,692	48,535	7,367	(9,142)	91,452
Net Income (Loss) Attributable to Equity Shareholders	30,096	5,253	(233)	–	35,116
Net Income (Loss)	30,376	5,255	(312)	–	35,319
For the year ended December 31, 2005					
Revenues and Other Income	79,158	49,990	3,438	(6,542)	126,044
Service	74,677	49,663	2,953	(6,231)	121,062
Non-service	3,036	41	351	(116)	3,312
Equity share in net income of associates	–	–	7	–	7
Other income	1,445	286	127	(195)	1,663
Expenses	40,694	49,897	3,380	(6,542)	87,429
Net Income Attributable to Equity Shareholders	33,222	768	122	–	34,112
Net Income	33,664	769	46	–	34,479
For the year ended December 31, 2004					
Revenues and Other Income	Php79,723	Php48,810	Php2,415	(Php4,744)	Php126,204
Service	69,015	48,486	2,080	(4,375)	115,206
Non-service	6,111	–	321	(163)	6,269
Other income	4,597	324	14	(206)	4,729
Expenses	48,020	46,958	3,038	(4,744)	93,272
Net Income (Loss) Attributable to Equity Shareholders	27,435	1,289	(693)	–	28,031
Net Income (Loss)	27,387	1,267	(695)	–	27,959

The peso financial information in the following discussions have been translated to U.S. dollars at the exchange rate at December 31, 2006, of Php49.045 to US$1.00, as quoted through the Philippine Dealing System.

2006 Compared to 2005

Wireless

Revenues and Other Income

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

The following table summarizes our service and non-service revenues and other income from our wireless business for the years ended December 31, 2006 and 2005 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
(in millions)						
Wireless services:						
Service Revenues						
Cellular	Php75,605	93	Php72,409	91	Php3,196	4
Wireless broadband, satellite, VSAT and others	2,778	3	2,268	3	510	22
	78,383	96	74,677	94	3,706	5
Non-service Revenues						
Sale of cellular handsets and SIM-packs	2,457	3	3,036	4	(579)	(19)
Other Income	706	1	1,445	2	(739)	(51)
Total Wireless Revenues and Other Income	Php81,546	100	Php79,158	100	Php2,388	3

Service Revenues

Our wireless service revenues increased by Php3,706 million, or 5%, to Php78,383 million in 2006 compared to Php74,677 million in the same period in 2005, mainly as a result of the growth of Smart's and Piltel's subscriber base, an increase in international inbound revenues and a reduction in domestic interconnection costs due to a shift from off-network to on-network voice and data usage. As a percentage of our total wireless revenues and other income, service revenues contributed 96% and 94% in 2006 and 2005, respectively.

Cellular Service

Our cellular service revenues consist of:

- revenues derived from actual usage of the network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic air time loads, net of content costs and discounts given to dealers;
- monthly service fees from postpaid subscribers, including: (1) charges for calls in excess of allocated free local calls; (2) toll charges for national and international long distance calls; (3) charges for text messages of our service customers in excess of allotted free text messages; and (4) charges for value-added services, net of related content provider costs;
- revenues generated from incoming calls and messages to our subscribers, net of interconnection expenses; fees from reciprocal traffic from international correspondents; and revenues from inbound international roaming calls for the service; and
- other charges, including those for reconnection and migration.

Our cellular service revenues in 2006 amounted to Php75,605 million, an increase of Php3,196 million, or 4%, from Php72,409 million in 2005. Cellular service revenues accounted for 96% and 97% of our wireless service revenues in 2006 and 2005, respectively.

As at December 31, 2006, Smart and Piltel cellular subscribers totaled 24,175,384, an increase of 3,766,763, or 18%, over their combined cellular subscriber base of 20,408,621 as at December 31, 2005. Prepaid subscribers accounted for 99% of our total subscriber base as at December 31, 2006 and 2005. Prepaid and postpaid subscribers totaled 23,856,821 and 318,563 as at December 31, 2006, reflecting net subscriber activations of 3,728,278 and 38,485, respectively, in 2006.

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

Smart continues to offer products and services that provide value to its subscribers. In 2005, Smart launched a series of promotions to test the market demand for fixed rate or "bucket" plans for voice and text. Under a service branded as *Smart 258*, subscribers had the option to register for unlimited on-network voice calling or text messaging. *Smart 258* has since been modified a number of times, with variations involving changes in load denominations and periods of network availability. The promotion offered unlimited on-network texting, carrying denominations of Php15, Php30 and Php60 with corresponding expiration periods of one, two and four days. Bucket pricing promotions have now become a key driver for subscriber activations and usage stimulation.

In 2006, Smart has focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* – a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Current offerings include *All Text 10 Bonus*, with a suggested retail price of Php12, which includes 15 messages without expiration and *All Text 20*, which includes 100 on-network messages for Php20, with a validity period of one day. *All Text* also has a voice counterpart in *All Talk 20* which is a call package allowing three calls of up to three minutes each for local on-network calls, valid for one day. Other voice offerings include: (a) the *Flat Rate Call* promotion, which allows a subscriber to make an on-network call of up to three minutes for Php10 or extend the call to five minutes for Php15; and (b) *Tipid Talk*, a call package which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls, valid for one day for Php10 and another variant allowing four calls of up to 15 seconds each for local on-network calls, valid for one day for Php5.50. *All Text 20*, *All Text 10 Bonus*, *All Talk 20* and *Tipid Talk* are now permanent offerings, while the *Flat Rate Call* promotion is valid until March 3, 2007. On January 18, 2007, Smart introduced *LAHATxt*, a top-up service which offers a bundle of text messages available to all networks. *LAHATxt 35* is available to all Smart prepaid subscribers and provides for 100 text messages to all networks for Php35 with a one day validity period. On the other hand, *Talk 'N Text* subscribers have *LAHATxt 20* which allows a subscriber to make 50 text messages to all networks for Php20, also valid for one day.

Smart likewise 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 for every minute of IDD calling. In October 2006, this was replaced by *International Budget Text* packages. These packages, which have a limited duration and a varying number of allowable messages, enable subscribers to send international text to pre-registered recipients of the subscriber's choice on supported overseas carriers.

Smart expanded its roster of services with the commercial launch of its 3G services in May 2006. These services include video calling, video streaming, high-speed Internet browsing and downloading of special 3G content, offered at rates similar to those of 2G services.

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

	Years Ended December 31,			
			Increase (Decrease)	
(in millions)	**2006**	**2005**	**Amount**	**%**
Cellular service revenues	Php75,605	Php72,409	Php3,196	4
By component	*73,893*	*70,507*	*3,386*	*5*
Voice	35,221	35,444	(223)	(1)
Data	38,672	35,063	3,609	10
By service type	*73,893*	*70,507*	*3,386*	*5*
Prepaid	68,846	66,023	2,823	4
Postpaid	5,047	4,484	563	13
Others(1)	*1,712*	*1,902*	*(190)*	*(10)*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices, revenues from Wolfpac and Smart Money Holdings Corporation and a small number of leased line contracts.

	December 31,			
			Increase	
	2006	**2005**	**Amount**	**%**
Cellular subscriber base	24,175,384	20,408,621	3,766,763	18
Prepaid	23,856,821	20,128,543	3,728,278	19
Smart	16,882,442	15,144,118	1,738,324	11
Piltel	6,974,379	4,984,425	1,989,954	40
Postpaid	318,563	280,078	38,485	14

	Years Ended December 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
Systemwide traffic volumes (in millions)				
Calls (in minutes)	5,667	5,467	200	4
Domestic	3,437	3,741	(304)	(8)
International	2,230	1,726	504	29
Inbound	2,065	1,557	508	33
Outbound	165	169	(4)	(2)
Text messages	238,362	95,959	142,403	148
Standard	32,052	40,781	(8,729)	(21)
Bucket-Priced	203,669	52,373	151,296	289
Value-Added Services	2,641	2,805	(164)	(6)

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, decreased by Php223 million, or 1%, to Php35,221 in 2006 from Php35,444 million in 2005 primarily due to a decrease in domestic voice revenues partially offset by an increase in international inbound revenue and a decrease in interconnection expense. The decline in domestic voice revenue may be attributed to increased competition in voice promotions as well as the re-channeling of calls to international inbound as a result of continued efforts to curb by-pass activities. The decrease in interconnection expense resulted from increased on-net voice usage brought about by bucket-priced promotions designed to encourage on-net voice services.

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

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php3,609 million, or 10%, to Php38,672 million in 2006 from Php35,063 million in 2005. Cellular data services accounted for 51% of cellular service revenues in 2006 as compared to 48% in 2005.

The following table shows the breakdown of cellular data revenues for the years ended December 31, 2006 and 2005:

	Years Ended December 31,			
			Increase (Decrease)	
	2006	2005	Amount	%
(in millions)				
Text messaging				
Domestic	Php32,763	Php29,110	Php3,653	13
Standard	21,709	25,580	(3,871)	(15)
Bucket-Priced	11,054	3,530	7,524	213
International	1,640	1,699	(59)	(3)
	34,403	30,809	3,594	12
Value-added services				
Non-Zed[1]	2,474	2,290	184	8
Smart Zed™	335	523	(188)	(36)
Smart Money	68	84	(16)	(19)
Mobile Banking	5	5	–	–
Roaming SMS, *Pasa Load*, MMS and WAP	1,387	1,352	35	3
	4,269	4,254	15	–
Total	Php38,672	Php35,063	Php3,609	10

(1) Value-added services developed by Smart on its own platform.

Text messaging-related services contributed revenues of Php34,403 million in 2006, an increase of Php3,594 million, or 12%, compared to Php30,809 million in 2005, and accounted for 89% and 88% of the total cellular data revenues in 2006 and 2005, respectively. The increase in revenues from text messaging-related services resulted mainly from the *Smart 258 Unlimited Text* promotion and its variant bucket-priced text promotional offerings. Text messaging revenues from the various bucket plans totaled Php11,054 million. Value-added services, which contributed revenues of Php4,269 million in 2006, increased by Php15 million from Php4,254 million in 2005, primarily due to higher usage of *Non-Zed* and roaming SMS services, partially offset by decreased usage of *Smart Zed* and *Smart Money* services in 2006 as compared to 2005. The decline in *Smart Zed* usage was primarily due to increased competition from other content providers while the decline in *Smart Money* revenue was on account of reduced usage of *Smart Money* by dealers as a settlement tool for load transactions.

Standard text messages totaled 32,052 million in 2006, a decrease of 8,729 million, or 21%, from 40,781 million in 2005 mainly due to a shift to bucket-priced text services. Bucket-priced text messages in 2006 totaled 203,669 million, an increase of 151,296 million, or 289%, as compared to 52,373 million in 2005.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 24,175,384 subscribers as at December 31, 2006, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 19% to 23,856,821 as at December 31, 2006 from 20,128,543 as at December 31, 2005, whereas the postpaid subscriber base increased by 14% to 318,563 as at December 31, 2006 from 280,078 as at December 31, 2005.

Our net subscriber activations for the years ended December 31, 2006 and 2005 were as follows:

	Years Ended December 31,			
			Increase	
	2006	2005	Amount	%
Prepaid	3,728,278	1,194,805	2,533,473	212
Smart	1,738,324	822,830	915,494	111
Piltel	1,989,954	371,975	1,617,979	435
Postpaid	38,485	5,584	32,901	589
Total	3,766,763	1,200,389	2,566,374	214

Revenues attributable to our cellular prepaid service amounted to Php68,846 million in 2006, a 4% increase over the Php66,023 million earned in 2005. Prepaid service revenues in 2006 and 2005 accounted for 93% and 94%, respectively, of voice and data revenues. Revenues attributable to Smart's postpaid service amounted to Php5,047 million in 2006, a 13% increase over the Php4,484 million earned in 2005, and accounted for 7% and 6% of voice and data revenues in 2006 and 2005, respectively.

The following table summarizes our cellular ARPUs for the years ended December 31, 2006 and 2005:

	Years Ended December 31,							
	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2006	2005	Amount	%	2006	2005	Amount	%
Prepaid								
Smart	Php339	Php357	(Php18)	(5)	Php289	Php294	(Php5)	(2)
Piltel	226	257	(31)	(12)	194	212	(18)	(8)
Prepaid – Blended	308	332	(24)	(7)	263	274	(11)	(4)
Postpaid – Smart	1,904	1,869	35	2	1,407	1,368	39	3
Prepaid and Postpaid Blended	330	353	(23)	(7)	278	289	(11)	(4)

ARPU is computed for each month by dividing the revenues for the relevant services for the month by the average of the number of subscribers at the beginning and at the end of the month. Gross monthly ARPU is computed by dividing the revenues for the relevant services, gross of dealer discounts and allocated content-provider costs, including interconnection income but excluding inbound roaming revenues, by the average number of subscribers. Net monthly ARPU, on the other hand, is calculated based on revenues net of dealer discounts and allocated content-provider costs and interconnection income net of interconnection expense. ARPU for any period of more than one month is calculated as the simple average of the monthly ARPUs in that period.

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Gross monthly ARPU for Smart prepaid subscribers in 2006 was Php339, a decrease of 5%, compared to Php357 in 2005. The average outbound domestic and international voice revenue per subscriber declined in 2006 compared to 2005, but was offset by an increase in the average text messaging revenue and inbound international revenue per subscriber. On a net basis, ARPU in 2006 was Php289, a decrease of 2%, compared to Php294 in 2005. Gross monthly ARPU for *Talk 'N Text* subscribers in 2006 was Php226, a decrease of 12%, compared to Php257 in 2005. The decline was primarily attributable to the decrease in the average domestic outbound local voice revenue per subscriber as well as the average domestic inbound revenue per subscriber partly offset by an increase in the average text messaging revenue per subscriber. On a net basis, ARPU in 2006 decreased by 8% to Php194 from Php212 in 2005.

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

Gross monthly ARPU for postpaid subscribers increased by 2% to Php1,904 while net monthly ARPU increased by 3% to Php1,407 in 2006 as compared to Php1,869 and Php1,368 in 2005, respectively. Prepaid and postpaid monthly gross blended ARPU was Php330 in 2006, a decrease of 7%, compared to Php353 in 2005. Monthly net blended ARPU decreased by 4% to Php278 in 2006 as compared to Php289 in 2005.

Our quarterly prepaid and postpaid ARPUs for the years ended December 31, 2006 and 2005 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2006						
First Quarter	Php356	Php294	Php245	Php207	Php1,867	Php1,386
Second Quarter	344	294	234	202	1,920	1,414
Third Quarter	323	280	213	184	1,891	1,403
Fourth Quarter	332	286	213	184	1,939	1,425
2005						
First Quarter	Php356	Php289	Php269	Php220	Php1,767	Php1,257
Second Quarter	357	294	262	212	1,896	1,360
Third Quarter	343	285	234	194	1,889	1,389
Fourth Quarter	370	308	261	220	1,923	1,467

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

We recognize a prepaid cellular subscriber as an active subscriber when that subscriber activates and uses the SIM card in the subscriber's handset, which contains pre-stored air time. The pre-stored air time, equivalent to Php1 plus 50 free SMS, can only be used upon purchase or reload of air time of any value. Subscribers can reload their air time by purchasing prepaid "call and text" cards; by purchasing additional air time "over the air" via *Smart Load* or *Smart Load* "All Text"; and by receiving loads of Php2, Php5, Php10 and Php15 via *Pasa Load*, or through their handsets using *Smart Money*. Reloads have validity periods ranging from one day to two months, depending on the amount reloaded. A prepaid cellular subscriber is disconnected if the subscriber does not reload within four months after the full usage or expiry of the last reload. Our current policy is to recognize a prepaid subscriber as "active" only when the subscriber activates and uses the SIM card and reloads at least once during the month of initial activation or in the immediate succeeding month. For example, if a customer activated a SIM card in April but had not reloaded by May 31, this customer would not be counted as a subscriber. The rationale for this change stems from our observance of "SIM-swapping" activities in the market. "SIM-swapping" refers to the promotional activity wherein subscribers can exchange their current prepaid

SIM card for another operator's SIM card at no cost to the subscriber. We believe that these activities have given rise to a situation where certain subscribers swap their SIM cards between mobile operators upon full usage of the pre-stored air time, which may result in our subscriber base reflecting a certain number of transient subscribers at any one point in time. In May 2005, we terminated our "SIM swapping" promotions; as a result, our churn rates increased in the third and fourth quarters of 2005, but leveled off beginning in the first quarter of 2006.

For Smart prepaid, the average monthly churn rate for 2006 was 3.1% compared to 4.0% in 2005, while the average monthly churn rate for *Talk 'N Text* subscribers was 3.3% in 2006 compared to 5.5% in 2005.

The average monthly churn rate for Smart's postpaid subscribers for 2006 was 1.2% compared to 2.0% in 2005. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist mainly of wireless broadband service revenues for Smart Broadband, rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies, charges for ACeS Philippines' satellite phone service and service revenues generated from a PLDT Global subsidiary's mobile virtual network operations. Gross revenues from these services for 2006 amounted to Php2,778 million, an increase of Php510 million, or 22%, from Php2,268 million in 2005 principally due to the growth in our wireless broadband business.

Smart Broadband offers a number of wireless broadband services and had 121,867 subscribers as at December 31, 2006. *SmartBro*, the fixed wireless broadband service of Smart linked to Smart's wireless broadband-enabled base stations, allows people to connect to the Internet using an outdoor aerial antenna installed in a subscriber's home. Wireless broadband revenues contributed Php823 million in 2006, increasing by Php610 million, or 286%, from Php213 million in 2005.

We also offer *PLDT WeRoam*, a wireless broadband service offering, running on Smart's nationwide wireless network (using GPRS, EDGE and WiFi technologies) and PLDT's extensive IP infrastructure. Some of the recent enhancements to the service are the inclusion of international roaming in key roaming countries all over the world and national WiFi roaming access. Principally targeted to the corporate market, the service had 9,623 subscribers as at December 31, 2006 and contributed Php76 million in our data revenues, an increase of Php36 million, or 90%, from Php40 million in 2005.

Non-service Revenues

Our wireless non-service revenues consist of:

- proceeds from sales of cellular handsets; and
- proceeds from sales of cellular SIM-packs.

Our wireless non-service revenues decreased by Php579 million, or 19%, to Php2,457 million in 2006 as compared to Php3,036 million in 2005 primarily due to lower handset sales as activations were driven more by SIM-pack sales in 2006.

Other Income

All other income/gains such as rental income and which do not fall under service and non-service revenues are included under this classification. Our wireless business segment generated other income of Php706 million in 2006, a decrease of Php739 million, or 51%, as compared to Php1,445 million in 2005 largely due to the reversal of prior years' provision for NTC fees to align with the assessments received in 2005.

Expenses

Expenses associated with our wireless business in 2006 amounted to Php44,692 million, an increase of Php3,998 million, or 10%, from Php40,694 million in 2005. A significant portion of this increase was attributable to higher rent, asset impairment, financing costs and compensation and benefits, which were partially offset by lower cost of sales and taxes and licenses. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business accounted for 55% and 51% in 2006 and 2005, respectively.

Cellular business expenses accounted for 98% of our wireless business expenses, while wireless broadband, satellite, VSAT and other business expenses accounted for the remaining 2% of our wireless business expenses in 2006 as compared to 95% and 5%, respectively, in 2005.

The following table summarizes the breakdown of our wireless-related expenses for the years ended December 31, 2006 and 2005 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)						
Wireless services						
Depreciation and amortization	Php10,752	24	Php10,156	25	Php596	6
Rent	7,887	18	5,592	14	2,295	41
Compensation and benefits[1]	5,041	11	4,249	11	792	19
Cost of sales	4,887	11	6,148	15	(1,261)	(21)
Maintenance	3,646	8	3,655	9	(9)	–
Selling and promotions	3,013	7	3,418	8	(405)	(12)
Professional and other contracted services	1,831	4	1,656	4	175	11
Financing costs	1,700	4	513	1	1,187	231
Asset impairment	1,391	3	–	–	1,391	100
Taxes and licenses	1,018	2	1,544	4	(526)	(34)
Communication, training and travel	891	2	960	2	(69)	(7)
Provisions	829	2	575	1	254	44
Insurance and security services	797	2	947	2	(150)	(16)
Amortization of intangible assets	312	1	244	1	68	28
Other expenses	697	1	1,037	3	(340)	(33)
Total	Php44,692	100	Php40,694	100	Php3,998	10

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

Depreciation and amortization charges increased by Php596 million, or 6%, to Php10,752 million in 2006, principally due to an increase in our depreciable asset base mainly broadband and 3G network, and customer-deployed equipment. For further details, see *Note 8 – Property, Plant and Equipment* to the accompanying audited consolidated financial statements.

Rent expenses increased by Php2,295 million, or 41%, to Php7,887 million on account of an increase in DFON facilities leased by Smart from PLDT, as well as higher satellite transmission and site rental expenses. As at December 31, 2006, we had 4,377 GSM cell sites and 6,099 base stations, compared with 4,305 GSM cell sites and 5,982 base stations as at December 31, 2005.

Compensation and benefits expenses increased by Php792 million, or 19%, to Php5,041 million, primarily due to higher accrued bonuses, pension benefits, long-term incentive plan costs and other employee benefits of Smart. Smart's employee headcount increased by 219, or 4%, to 5,306 in 2006 as compared to 5,087 in 2005. For further discussion on our long-term incentive plan, please see *Note 21 –Employee Benefits* to the accompanying audited consolidated financial statements.

Cost of sales decreased by Php1,261 million, or 21%, to Php4,887 million due to a decrease in the volume of phone kits sold and the termination of SIM-swapping activities in May 2005. The breakdown of cost of sales for our wireless business for the years ended December 31, 2006 and 2005 is as follows:

	Years Ended December 31,			
			Decrease	
	2006	**2005**	**Amount**	**%**
(in millions)				
Cost of cellular handsets and SIM-packs sold	Php4,688	Php5,905	(Php1,217)	(21)
Cost of satellite air time and terminal units	199	243	(44)	(18)
	Php4,887	Php6,148	(Php1,261)	(21)

Maintenance expenses decreased by Php9 million to Php3,646 million mainly on account of lower repairs and maintenance costs for network facilities and motor vehicles which offset higher expenses for electricity and power generation as well as higher maintenance expense for IT hardware and software.

Selling and promotion expenses decreased by Php405 million, or 12%, to Php3,013 million due to lower commission, and advertising and promotions expenses as well as a decrease in printing costs of prepaid cards.

Professional and other contracted services increased by Php175 million, or 11%, to Php1,831 million, primarily due to increased call center, contracted service, market research, consultancy and technical service fees.

Financing costs increased by Php1,187 million, or 231%, to Php1,700 million in 2006 from Php513 million in 2005 due to the combined results of: (1) lower foreign exchange gains recognized in 2006 as a result of lower dollar-denominated debt balances; and (2) higher amortization of debt discount brought about by the prepayment of Piltel's debt in 2006. These increasing effects were partially offset by: (1) lower interest expense owing to lower debt balances; (2) higher capitalized interest and interest income; and (3) gain on derivative transactions in 2006 as against a loss on derivative transactions in 2005. The breakdown of our financing costs for our wireless business for the years ended December 31, 2006 and 2005 is as follows:

	Years Ended December 31,			
			Change	
	2006	**2005**	**Amount**	**%**
(in millions)				
Accretion on financial liabilities – net	Php3,105	Php2,560	Php545	21
Interest on loans and related items	1,634	1,799	(165)	(9)
Dividends on preferred stock subject to mandatory redemption	130	251	(121)	(48)
Financing charges	37	52	(15)	(29)
Loss (gain) on derivative transactions – net	(39)	118	(157)	(133)
Capitalized interest	(248)	(85)	(163)	(192)
Interest income	(1,197)	(1,135)	(62)	(5)
Foreign exchange gains – net	(1,722)	(3,047)	1,325	43
	Php1,700	Php513	Php1,187	231

Asset impairment of Php1,391 million in 2006 represents the reduction in value of Mabuhay Satellite's Agila II satellite given the difficulty in generating cash flows with the satellite nearing its end-of-life and other events affecting its business.

Taxes and licenses decreased by Php526 million, or 34%, to Php1,018 million, primarily due to a decrease in Smart's licenses and business-related taxes.

Communication, training and travel expenses decreased by Php69 million, or 7%, to Php891 million due to lower mailing and courier, training, communication and local travel expenses, partially offset by higher freight and hauling charges incurred in 2006.

Provisions increased by Php254 million, or 44%, to Php829 million primarily due to an increase in the provision for subscriber and carrier receivables coupled with the reversal of the provision for non-trade receivables booked in 2005, partially offset by lower level of write-down of slow-moving handsets to net realizable values. The breakdown of provisions for the years ended December 31, 2006 and 2005 is as follows:

	Years Ended December 31,			
			Increase (Decrease)	
	2006	**2005**	**Amount**	**%**
(in millions)				
Doubtful accounts	Php627	Php253	Php374	148
Write-down of inventories to net realizable values	202	322	(120)	(37)
	Php829	Php575	Php254	44

Insurance and security services decreased by Php150 million, or 16%, to Php797 million, primarily due to the decrease in site security expenses and lower amortization charges on prepaid insurance contracts.

Amortization of intangible assets increased by Php68 million, or 28%, to Php312 million mainly due to an increase in the amount of intangible assets recognized following the purchase of an additional 20% investment in Wolfpac.

Other expenses decreased by Php340 million, or 33%, to Php697 million primarily due to various lower business and operational-related expenses such as bank charges, representation expenses and a loss on share swap in 2005.

Provision for Income Tax

Provision for income tax increased by Php1,678 million, or 35%, to Php6,478 million in 2006 from Php4,800 million in 2005. In 2006, the effective tax rate for our wireless business was 18% as compared to 12% in 2005 due to differences in the net movement of deferred tax assets. For 2006, the net movement in deferred tax assets primarily pertains to deferred tax assets recognized in relation to the benefit to be derived from the disposal of certain of Piltel's assets with the lifting of certain mortgage trust indenture restrictions resulting from the full prepayment of Piltel's restructured debt on December 4, 2006. Please see *Note 6 – Income Tax* to the accompanying audited consolidated financial statements for further discussion.

Net Income

Our wireless business segment recorded a net income of Php30,376 million in 2006, a decrease of Php3,288 million, or 10%, over Php33,664 million registered in 2005 as the increase in our cellular revenues was more than offset by an increase in operating expenses and higher provision for income tax.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in 2006 totaled Php54,219 million, an increase of Php4,229 million, or 8%, from Php49,990 million in 2005.

The following table summarizes revenues from our fixed line business for the years ended December 31, 2006 and 2005 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	%	2005	%	Amount	%
(in millions)						
Fixed line services:						
Service Revenues						
Local exchange	Php16,923	31	Php18,519	37	(Php1,596)	(9)
International long distance	9,933	18	12,245	24	(2,312)	(19)
National long distance	6,921	13	7,233	14	(312)	(4)
Data and other network	13,725	26	10,399	21	3,326	32
Miscellaneous	1,632	3	1,267	3	365	29
	49,134	91	49,663	99	(529)	(1)
Non-Service Revenues	79	–	41	–	38	93
Other Income	5,006	9	286	1	4,720	1,650
Total Fixed Line Revenues and Other Income	Php54,219	100	Php49,990	100	Php4,229	8

Service Revenues

Local Exchange Service

Our local exchange service revenues consist of:

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

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

	Years Ended December 31,			
			Increase (Decrease)	
	2006	2005	Amount	%
Total local exchange service revenues (in millions)	Php16,923	Php18,519	(Php1,596)	(9)
Number of fixed line subscribers	1,776,647	1,842,507	(65,860)	(4)
Number of fixed line employees	8,711	9,197	(486)	(5)
Number of fixed line subscribers per employee	204	200	4	2

Revenues from our local exchange service decreased by Php1,596 million, or 9%, to Php16,923 million in 2006 from Php18,519 million in 2005. The decrease was primarily due to a 4% decline in the number of fixed line subscribers and the appreciation of the peso which required us to make downward adjustments in our monthly local service rates. The percentage contribution of local exchange revenues to our total fixed line service revenues decreased to 35% in 2006 as compared to 37% in 2005.

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 and subscriber retention strategy. Prepaid subscribers are charged based on usage at a rate of Php1.00 per minute for local calls, but the rates charged for prepaid and postpaid fixed line subscribers for national and international long distance calls are the same. A prepaid fixed line subscriber is recognized as an active subscriber when that subscriber activates and uses a prepaid call card. Prepaid fixed line subscribers can reload their accounts by purchasing call cards that are sold in denominations of Php500, Php300 and Php150. All sales of prepaid cards, whether through dealers or through PLDT's business offices, are non-refundable.

In May 2006, PLDT launched *Pwede! Card*, a convergent product made possible by our NGN capability. *Pwede! Card* is the first reloadable PIN-based prepaid card that provides access to a range of voice and Internet services at affordable rates. *Pwede! Card* is applicable to a host of fixed line and wireless services including local, domestic and international long distance calls, text messaging, payphones and prepaid Internet service.

In July 2006, PLDT launched *TelePwede*, a new brand of our prepaid fixed line service. *TelePwede* subscribers are charged Php2 per local call (for an unlimited duration) and Php5 per hour for Internet connection. *TelePwede* subscribers can reload for as low as Php145 per month, which is inclusive of a Php30 load balance that can be used for outgoing calls and a Php115 access charge for incoming calls.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our postpaid monthly local service rates upward or downward by 1% for every Php0.10 change in the peso-to-dollar exchange rate relative to a base rate of Php11.00 to US$1.00. In 2006, we implemented eight downward adjustments and three upward adjustments in our monthly local service rates, while there were six downward adjustments and three upward adjustments in 2005. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in 2006 was Php51.53 to US$1.00, compared to an average of Php55.21 to US$1.00 in 2005. This change in the average peso-to-dollar rate translated to a peso appreciation of 7%, which resulted in a net decrease of approximately 6% in our average monthly local service rates in 2006.

International Long Distance Service

Our international long distance service revenues, which we generate through our international gateway facilities, consist of:

- inbound call revenues representing settlements from foreign telecommunications carriers for inbound international calls, virtual transit and hubbing service and reverse charged calls such as received collect and home country direct service;

- access charges paid to us by other Philippine telecommunications carriers for terminating inbound international calls to our local exchange network; and

- outbound call revenues representing amounts billed to our customers (other than our cellular customers) for outbound international calls, net of amounts payable to foreign telecommunications carriers for terminating calls in their territories.

The following table shows information about our international fixed line long distance business for the years ended December 31, 2006 and 2005:

	Years Ended December 31,			
			Increase (Decrease)	
	2006	2005	Amount	%
Total international long distance service revenues (in millions)	Php9,933	Php12,245	(Php2,312)	(19)
Inbound	8,378	10,203	(1,825)	(18)
Outbound	1,555	2,042	(487)	(24)
International call volumes (in million minutes, except call ratio)	2,177	2,266	(89)	(4)
Inbound	1,984	2,117	(133)	(6)
Outbound	193	149	44	30
Inbound-outbound call ratio	10.3:1	14.2:1	–	–

Our total international long distance service revenues decreased by Php2,312 million, or 19%, to Php9,933 million in 2006 from Php12,245 million in 2005, primarily due to the peso appreciation, a decrease in average termination rates for inbound calls and a decline in inbound call volumes largely as a result of alternative means of communications such as e-mailing, texting and Internet telephony. The percentage contribution of international long distance service revenues to our total fixed line service revenues decreased to 20% in 2006 from 25% in 2005.

Our revenues from inbound international long distance service decreased by Php1,825 million, or 18%, to Php8,378 million due to a decrease in inbound traffic volume by 133 million minutes to 1,984 million minutes in 2006 coupled with a decrease in average termination rates. In addition, the appreciation of the Philippine peso to the U.S. dollar with average rates of Php51.332 in 2006 and Php55.085 in 2005 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 Php487 million, or 24%, to Php1,555 million in 2006 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 peso appreciation in 2006, which more than offset the increase in outbound international call volumes in 2006.

On September 15, 2005, we introduced *PLDT ID-DSL*, a service that allows overseas calls for registered *myDSL* plan subscribers using a regular PLDT fixed line or a voice pad dialer for as low as US$0.10 per minute or US$0.08 per minute, respectively, depending on the subscribers' DSL plan.

To address the market's demand for low-priced international calls, PLDT modified the *Budget Card*, a prepaid call card, offering a reduced IDD rate of Php5 per minute, as a promotional offer starting September 24, 2005, for calls to 89 overseas destinations including the United States, Canada, Japan and China. Beginning March 4, 2006, *Budget Card* has been further modified to Php3, Php5 and Php8 per minute calls, depending on the destination, and now has 100 overseas destinations. *Budget Cards* are sold in denominations of Php200 and Php100, which must be consumed within 30 days from first use.

National Long Distance Service

Our national long distance service revenues consist of:

- per minute charges for calls made by our fixed line customers outside of the local service areas but within the Philippines, net of interconnection charges payable for calls carried through the backbone network of, and/or terminating to the customer of, another telecommunications carrier;

- access charges received from other telecommunications carriers for calls carried through our backbone network and/or terminating to our customers; and

- fixed charges paid by other telephone companies, charges retained by PLDT for calls terminating to cellular subscribers within the local area, and local access charges paid by cellular operators for calls by cellular subscribers that terminate to our local exchange network.

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

	Years Ended December 31,			
			Decrease	
	2006	**2005**	**Amount**	**%**
Total national long distance service revenues (in millions)	Php6,921	Php7,233	(Php312)	(4)
National long distance call volumes (in million minutes)	2,251	2,348	(97)	(4)

Our national long distance service revenues decreased by Php312 million, or 4%, to Php6,921 million in 2006 from Php7,233 million in 2005, primarily due to a decrease in call volumes coupled with lower average revenue per minute in 2006 due to the change in mechanics in our Php10 per call promotion. In 2005, the Php10 per call promotion was open to all PLDT Group fixed line subscribers nationwide while in 2006, the Php10 per call service was made available only to registered PLDT subscribers for a monthly service fee. Accordingly, the percentage contribution of national long distance revenues to our fixed line service revenues accounted for 14% and 15% in 2006 and 2005, respectively.

In January 2006, PLDT launched the *10-10-10* promotion where we charge a flat rate of Php10 for unlimited calls terminating from PLDT to PLDT and Smart and *Talk 'N Text* subscribers for a Php50 monthly service fee.

PLDT limited the Php10 per call service for Smart and *Talk 'N Text* to subscribers who registered on or before February 24, 2006. PLDT fixed line subscribers, however, can still register and avail themselves of the unlimited Php10 per call service for national long distance calls within the PLDT network.

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, 2006 and 2005:

Years Ended December 31,

(in millions)	2006	2005	Increase Amount	%
Data and other network service revenues	Php13,725	Php10,399	Php3,326	32
Number of DSL broadband subscribers	133,159	88,811	44,348	50
Number of PLDT Vibe narrowband subscribers	297,250	266,703	30,547	11

In 2006, our data and other network services posted revenues of Php13,725 million, an increase of Php3,326 million, or 32%, from Php10,399 million in 2005, primarily due to increases in leased lines, IP-based and switched-based data services, particularly Diginet and DFON rental, *PLDT DSL* and *PLDT Vibe* services. The revenue contribution of this service segment to our fixed line service revenues increased to 28% in 2006 from 21% in 2005.

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

DSL contributed revenues of Php3,132 million in 2006, an increase of Php754 million, or 32%, from Php2,378 million in 2005, primarily due to an increase in the number of subscribers. *DSL* reached 133,159 subscribers as at December 31, 2006 compared with 88,811 subscribers in the same period in 2005. *DSL* offers a number of packages with maximum speeds ranging from 88 kbps to 5 Mbps depending on the plan.

PLDT Vibe revenues increased by Php106 million, or 38%, to Php387 million in 2006 from Php281 million in 2005, primarily due to an increase in subscribers. As at December 31, 2006, *PLDT Vibe* registered users totaled 297,250, of which 100,362 were exclusive postpaid users, 182,968 were exclusive prepaid users, and 13,920 were both postpaid and prepaid users. As at December 31, 2005, *PLDT Vibe* registered users totaled 266,703, of which 97,016 were exclusive postpaid users, 149,973 were exclusive prepaid users, and 19,714 were both postpaid and prepaid users.

In support of the growing data requirements of the small and medium enterprise market, the network footprints of BRAINS, IP-VPN and *Shops.work*, PLDT's private local networking services, have been expanded with the roll-out of NGN facilities in key business areas across the country.

The continued growth in data services revenues can be attributed to several product offerings. The steady demand for dedicated connectivity or private networking from the corporate market using PLDT's traditional international and domestic data offerings – Fibernet, Arcstar, Acacia, I-Gate, Diginet, BRAINS, IP-VPN and *Shops.work*, among others – continues to provide us with a stable revenue source.

Diginet, our domestic private leased line service, has been providing Smart's increasing fiber optic and leased line data requirements. Diginet revenues increased by Php2,335 million, or 53%, to Php6,771 million in 2006 as compared to Php4,436 in 2005 mainly due to Smart's DFON rental of Php4,940 million and Php3,062 million in 2006 and 2005, respectively.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In 2006, these revenues increased by Php365 million, or 29%, to Php1,632 million from Php1,267 million in 2005. The improvement was mainly due to an increase in rental income, primarily from co-location charges on account of an increase in the number of co-location sites, coupled with an increase in facility management fees. The percentage contribution of miscellaneous service revenues to our total fixed line service revenues was 3% and 2% in 2006 and 2005, respectively.

Non-service Revenues

Non-service revenues increased by Php38 million, or 93%, to Php79 million in 2006 from Php41 million in 2005 primarily due to proceeds from computer sales in relation to our DSL promotion.

Other Income

All other income/gains such as rental income and gain on disposal of property, which do not fall under service and non-service revenues are included under this classification. In 2006, our fixed line business segment registered an increase in other income of Php4,720 million to Php5,006 million from Php286 million in 2005. Other income increased in 2006 largely due to the following: (1) a 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 23 – Provisions and Contingencies* to the accompanying audited consolidated financial statements for further discussion); (2) gain on sale of fixed assets, other property and materials in the aggregate amount of Php658 million; and (3) gain relating to a refund from Manila Electric Company, or Meralco, of Php194 million recorded at fair value in 2006 (payable by Meralco over four years.)

Expenses

Expenses related to our fixed line business totaled Php48,535 million in 2006, a decrease of Php1,362 million, or 3%, as compared to Php49,897 million in 2005. The decrease was primarily due to lower provisions, financing costs and rent, partially offset by higher compensation and benefits and maintenance expense.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2006 and 2005 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)						
Fixed line services:						
Depreciation and amortization	Php20,406	42	Php20,251	41	Php155	1
Compensation and benefits[1]	10,298	21	8,541	17	1,757	21
Financing costs	7,271	15	8,581	17	(1,310)	(15)
Maintenance	3,553	7	3,309	7	244	7
Selling and promotions	1,736	4	1,567	3	169	11
Rent	1,579	3	1,712	3	(133)	(8)
Professional and other contracted services	1,082	2	1,023	2	59	6
Taxes and licenses	659	2	625	1	34	5
Communication, training and travel	507	1	447	1	60	13
Insurance and security services	498	1	628	1	(130)	(21)
Cost of sales	159	–	53	–	106	200
Provisions	92	–	2,297	5	(2,205)	(96)
Other expenses	695	2	863	2	(168)	(19)
Total	Php48,535	100	Php49,897	100	(Php1,362)	(3)

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

Depreciation and amortization charges increased by Php155 million, or 1%, to Php20,406 million due to the higher depreciation of our regular asset base from additional completed projects.

Compensation and benefits expenses increased by Php1,757 million, or 21%, to Php10,298 million, primarily due to the effect of collective bargaining agreement-related increases in salaries and benefits, and an increase in incentive plan-related accruals, partially offset by a reduction in the number of fixed line employees due to PLDT's manpower rightsizing program. For further discussion on our long-term incentive plan, please see *Note 21 – Employee Benefits* to the accompanying audited consolidated financial statements.

Financing costs decreased by Php1,310 million, or 15%, to Php7,271 million largely due to lower interest on loans and related items owing to lower debt balances in 2006 as compared to 2005. This decreasing effect was partially offset by: (1) lower foreign exchange gains recorded in 2006 as a result of lower foreign currency debt levels; and (2) higher hedge costs. The breakdown of financing costs for our fixed line business for the years ended December 31, 2006 and 2005 is as follows:

	Years Ended December 31,			
			Change	
	2006	2005	Amount	%
(in millions)				
Interest on loans and related items	Php6,254	Php9,058	(Php2,804)	(31)
Hedge costs	1,446	1,234	212	17
Loss on derivative transactions – net	447	510	(63)	(12)
Accretion on financial liabilities – net	206	322	(116)	(36)
Financing charges	14	150	(136)	(91)
Capitalized interest	(301)	(419)	118	28
Foreign exchange gains – net	(354)	(1,889)	1,535	81
Interest income	(441)	(385)	(56)	(15)
	Php7,271	Php8,581	(Php1,310)	(15)

Maintenance expenses increased by Php244 million, or 7%, to Php3,553 million, primarily due to higher maintenance costs for foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in 2006 as compared to 2005.

Selling and promotion expenses increased by Php169 million, or 11%, to Php1,736 million, primarily as a result of an increase in PLDT's promotional activities in relation to various products and services, such as PLDT's *Pwede!* campaign, coupled with higher public relations expense in 2006.

Rent expenses decreased by Php133 million, or 8%, to Php1,579 million due to lower office and building rentals, and a decrease in transponder lease charges, partially offset by an increase in international and domestic leased circuits charges.

Professional and other contracted services increased by Php59 million, or 6%, to Php1,082 million primarily due to higher contracted services and bill printing fees in 2006.

Taxes and licenses increased by Php34 million, or 5%, to Php659 million, mainly on account of higher business-related taxes incurred in 2006 as compared to 2005.

Communication, training and travel expenses increased by Php60 million, or 13%, to Php507 million due to an increase in local and foreign travel and training in 2006 as compared to 2005.

Insurance and security services decreased by Php130 million, or 21%, to Php498 million, primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance as well as lower security services due to a decrease in number of contracted security guards.

Cost of sales increased by Php106 million, or 200%, to Php159 million in 2006 due to the computer-bundled sales in relation to our DSL promotion and *WeRoam* subscriptions.

Provisions decreased by Php2,205 million, or 96%, to Php92 million primarily on account of an improvement in collection rates in 2006 compared to 2005 and the consequent reversal of provisions with the change in realizability of certain receivable accounts specifically identified and previously provided for. The breakdown of provisions for our fixed line business for the years ended December 31, 2006 and 2005 is as follows:

	Years Ended December 31,			
			Decrease	
	2006	2005	Amount	%
(in millions)				
Doubtful accounts	Php45	Php1,944	(Php1,899)	(98)
Write-down of inventories to net realizable value	9	157	(148)	(94)
Onerous contracts and assessments	38	196	(158)	(81)
	Php92	Php2,297	(Php2,205)	(96)

Other expenses decreased by Php168 million, or 19%, to Php695 million due to lower office supplies consumption and printing costs resulting from PLDT's continuing cost-containing activities.

Provision for (Benefit from) Income Tax

Provision for income tax amounted to Php429 million in 2006 as compared to a benefit from income tax of Php676 million in 2005 primarily due to net movement in deferred tax assets owing to higher foreign exchange differentials realized in 2005.

Net Income

In 2006, our fixed line business segment contributed a net income of Php5,255 million, an increase of Php4,486 million, or 583%, as compared to Php769 million in 2005 mainly as a result of an increase in other income and a 3% decrease in fixed line-related expenses, particularly provisions and financing costs.

Information and Communications Technology

Revenues and Other Income

Our information and communications technology, or ICT, business is conducted by ePLDT and its subsidiaries.

On July 11, 2006, ePLDT acquired a 100% equity interest in SPi and its direct and indirect Philippine and offshore subsidiaries. SPi is the second largest pure-play BPO service provider and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. On August 11, 2006, SPi acquired 100% of CyMed, Inc., a leading medical transcription company based in Richmond, Virginia.

On February 16, 2006, ePLDT acquired a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines. The acquisition of Level Up!, together with netGames, ePLDT's online gaming subsidiary, will strengthen ePLDT's online gaming business in the Philippines.

For further discussion, see *Note 2 – Summary of Accounting Policies and Practices – Basis of Preparation* to the accompanying audited consolidated financial statements.

In 2006, our information and communications technology business generated revenues of Php7,018 million, an increase of Php3,580 million, or 104%, from Php3,438 million in 2005. This increase was largely due to the consolidation of SPi and Level Up! and the continued increase of our call center revenues. Going forward, we expect revenues from our call center and BPO businesses to continue to contribute significantly to our information and communications technology revenues in light of the growing demand for our call center and BPO services.

The following table summarizes revenues from our information and communications technology business for the years ended December 31, 2006 and 2005 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)						
Service Revenues						
Call center	Php2,624	37	Php1,944	57	Php680	35
BPO	2,374	34	–	–	2,374	100
Internet and gaming	796	11	556	16	240	43
Vitro™ data center	428	6	376	11	52	14
Others	115	2	77	2	38	49
	6,337	90	2,953	86	3,384	115
Non-service Revenues						
Point Product Sales	553	8	351	10	202	58
Other Income	128	2	127	4	1	1
Equity in net income of associates	–	–	7	–	(7)	(100)
Total ICT Revenues and Other Income	Php7,018	100	Php3,438	100	Php3,580	104

Service Revenues

Service revenues generated by our information and communications technology segment amounted to Php6,337 million in 2006, an increase of Php3,384 million, or 115%, as compared to Php2,953 million in 2005 primarily as a result of the consolidation of SPi and Level Up! and the continued growth of our call center business.

Call Center

We are focused on developing our call center business which capitalizes on the availability of English-speaking college graduates in the Philippines with a strong customer service orientation. ePLDT has established one umbrella brand name, *ePLDT Ventus*, for all of its call center businesses, including Vocativ and Parlance. *Ventus* provides offshore contact center outsourcing solutions specializing in inbound customer care. Vocativ provides customer and technical support to its clients in the Philippines, United States and the United Kingdom, while Parlance provides exclusive customer support and billing requirements to one of the largest direct-to-home satellite television providers in the United States. In total, we own and operate approximately 5,600 seats with 5,130 customer service representatives, or CSRs, as at December 31, 2006 compared to approximately 3,350 seats with 3,625 CSRs as at December 31, 2005. In 2006, *ePLDT Ventus* launched two new sites bringing our total call center site count to seven as at December 31, 2006.

Call center revenues consist of:

- inbound calls for customer care, product inquiries, sales and technical support based on active minutes, billable hours and full-time equivalents;

- outbound calls for sales and collections based on active minutes, billable hours and full-time equivalents; and

- service income for e-mail handling, web chat, web co-browsing, data entry and BPO based on transaction volume.

Revenues related to our call center business increased by Php680 million, or 35%, to Php2,624 million in 2006 from Php1,944 million in 2005 primarily due to the combined effects of the following:

- an increase in programs being handled by Vocativ from 2005 brought about by the acquisition of additional clients in 2006, as Ventus entered into an alliance with one of India's leading BPO companies to serve their voice requirements;
- an increase in the number of registered minutes for Parlance's inbound projects and hours for outbound projects;
- an increased call volume handled by Ventus due to the expansion of our domestic call center group, which currently serves internal (Smart) and external (credit card companies) clients;
- the expansion of Vocativ's existing Taguig facility by 530 seats from approximately 1,190 seats in 2005 to approximately 1,720 seats in 2006;
- the expansion of Ventus' existing Iloilo facility by 130 seats from approximately 370 seats in 2005 to approximately 500 seats in 2006;
- the expansion of Ventus' back-up/overflow Makati facility by 220 seats from approximately 80 seats in 2005 to approximately 300 seats in 2006, which provided capacity for seasonal requirements of Iloilo-based programs;
- the commencement of operations at the 820-seat Ventus Pasig call center in August 2006; and
- the commencement of operations at the 780-seat Parlance Libertad call center in September 2006.

Call center revenues accounted for 41% and 66% of total information and communications technology service revenues in 2006 and 2005, respectively.

Business process outsourcing

BPO revenues consist of:

- editorial and content production services to the scholarly scientific, technical and medical (SSTM) journal publishing industry;
- digital content conversion services to information incentive organizations such as online and traditional publishers, libraries, educational institutions, Global 1,000 corporations and government agencies worldwide;
- pre-press project management services to book publishers;
- litigation support services which involve conventional coding and electronic discovery support services for international law firms, corporate counsels and government agencies; and
- conversion services of medical record/data from handwritten or speech format to electronic format.

We provide our BPO services primarily through SPi and its subsidiaries, which we acquired on July 11, 2006. In 2006, BPO contributed revenues of Php2,374 million, primarily from SPi services, and accounted for 37% of service revenues of our information and communications technology business in 2006.

Internet and gaming

ePLDT has also invested in a number of other e-commerce and Internet-related businesses, which include:

- a 99.6% interest in Infocom, an Internet service provider offering consumer prepaid and postpaid Internet access, corporate leased lines, dedicated dial-up, multi-user dial-up, broadband Internet access through DSL, web consulting and development, hosting and other value-added services. In addition, Infocom, through its Customer Service Outsourcing Group, handles PLDT group's nationwide technical helpdesk operations;

- a 75% interest in Digital Paradise, an Internet café business with the brand *Netopia*;

- an 80% interest in netGames, a publisher for Massively Multi-player Online Games in the Philippines and the Philippine licensee of *Khan Online*, Pangya and Flyff, and the owner of Juanworld, a community gaming portal;

- a 60% interest in Level Up!, a leading publisher of online games in the Philippines with approximately 80% of the online gaming market. Level Up! was acquired on May 1, 2006;

- a 51% interest in Airborne Access, the country's leading operator of WiFi hotspots, which provides wireless Internet access in hotspots equipped with WiFi access points; and

- a 51% interest in Digital Paradise Thailand, an affiliate of Digital Paradise, offering similar products and services with four branches in Bangkok, Thailand.

Internet service revenues consist of:

- revenues derived from actual usage of the Internet access network by prepaid subscribers and any unused peso value of expired prepaid cards or electronic Internet time loads, net of discounts given to dealers;
- monthly service fees from postpaid corporate and consumer subscribers including: (1) charges for Internet usage in excess of allocated free plan Internet hours; (2) one-time installation and activation fees; and (3) fees for value added services including e-mail and web hosting services;
- one-time fees generated from the reselling of Internet-related solutions such as security solutions and domain registration;
- franchise and royalty fees for *Netopia* Internet cafés, including a one-time subscription fee and monthly recurring franchise fees based on certain conditions in the franchise agreement;
- revenues from community access of computers and desktop publishing based on actual usage, net of discounts given to users; and

- online gaming revenues from unique subscribers, including one-time sale of gaming cards and electronic pins, and top-up fees upon actual consumption of gaming credits or after expiration of any unused peso value thereof.

Revenues from our Internet and gaming businesses increased by Php240 million, or 43%, to Php796 million in 2006 from Php556 million in 2005 primarily due to the consolidation of Airborne Access and Level Up! in October 2005 and May 2006, respectively, which resulted in additional revenues of Php11 million and Php138 million, respectively. Our Internet business revenues accounted for 13% and 19% of service revenues of our information and communications technology business in 2006 and 2005, respectively.

Vitro™ data center

ePLDT operates an Internet data center under the brand name *Vitro*™ 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™ revenues consist of:

- monthly service fees derived from co-location services, server hosting, hardware and software maintenance services, website development and maintenance services, web hosting, data recovery security services and other value-added services; and
- installation charges or one-time fees associated with the set-up of services and professional services of Vitro's certified professionals.

In 2006, *Vitro*™ contributed revenues of Php428 million, an increase of Php52 million, or 14%, from Php376 million in 2005, primarily due to an increase in co-location revenues and server hosting. *Vitro*™ revenues accounted for 7% and 13% of service revenues of our information and communications technology business in 2006 and 2005, respectively.

Others

Other revenues consist of:

- fees generated from the issuance of digital certificates and licenses; and
- revenues derived from IT helpdesk/contact center solutions and terminals for credit, debit and credit card transactions.

Revenues from other businesses related to our information and communications technology segment increased by Php38 million, or 49%, to Php115 million in 2006 from Php77 million in 2005, largely due to IT helpdesk/contact center services rendered coupled with an increase in the number of digital certificates sold.

Please refer to *Note 9 – Investments in Associates* to the accompanying audited consolidated financial statements for further discussion on ePLDT's other information and communications technology services.

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 2006, non-service revenues generated by our information and communications technology business increased by Php202 million, or 58%, to Php553 million as compared to Php351 million in 2005, primarily due to higher revenues from sales of networking equipment and software licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our information and communications technology business slightly increased to Php128 million in 2006 from Php127 million in 2005.

Equity Share in Net Income of Associates

ePLDT's equity share in net income of associates amounted to Php7 million in 2005 due to ePLDT's share in the earnings of its unconsolidated subsidiary, ePDS, Inc.

Expenses

Expenses associated with our information and communications technology business totaled Php7,367 million in 2006, an increase of Php3,987 million, or 118%, from Php3,380 million in 2005 primarily due to the consolidation of SPi and Level Up! resulting in an increase in compensation and benefits, and professional and other contracted services. We currently expect these expenses to be significantly higher going forward as a result of the full year consolidation of SPi and Level Up!. As a percentage of our information and communications technology revenues, expenses related to our information and communications technology business were 105% and 98% for 2006 and 2005, respectively.

The following table shows the breakdown of our total information and communications technology-related expenses for the years ended December 31, 2006 and 2005 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
	2006	**%**	**2005**	**%**	**Amount**	**%**
(in millions)						
Information and communications technology services:						
Compensation and benefits[1]	Php3,021	41	Php1,351	40	Php1,670	124
Professional and other contracted services	739	10	82	2	657	801
Depreciation and amortization	711	10	415	12	296	71
Cost of sales	476	6	300	9	176	59
Rent	444	6	362	11	82	23
Asset impairment	428	6	26	1	402	1,546
Maintenance	368	5	283	8	85	30
Selling and promotions	293	4	120	4	173	144
Communication, training and travel	276	4	98	3	178	182
Amortization of intangible assets	138	2	–	–	138	100
Financing costs	113	1	39	1	74	190
Taxes and licenses	70	1	36	1	34	94
Provisions	64	1	54	2	10	19
Equity share in net losses of associates	52	1	–	–	52	100
Insurance and security services	35	–	14	–	21	150
Other expenses	139	2	200	6	(61)	(31)
Total	Php7,367	100	Php3,380	100	Php3,987	118

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

Compensation and benefits increased by Php1,670 million, or 124%, to Php3,021 million largely due to the increased number of employees and corresponding salaries and employee benefits resulting from the expansion of our call center businesses and the consolidation of SPi and Level Up! in 2006. ePLDT's employee headcount increased by 9,558, or 208%, to 14,150 in 2006 from 4,592 in 2005.

Professional and other contracted services increased by Php657 million to Php739 million primarily due to services sub-contracted by SPi from third parties related to its BPO services.

Depreciation and amortization charges increased by Php296 million, or 71%, to Php711 million primarily due to an increase in the depreciable asset base in relation to the expansion of our call center businesses and the consolidation of SPi in July 2006.

Cost of sales increased by Php176 million, or 59%, to Php476 million primarily due to an increase in the cost of point products sold in 2006.

Rent expenses increased by Php82 million, or 23%, to Php444 million primarily due to the opening of two additional call center sites in 2006 which led to increased rental of leased circuits.

Asset impairment increased by Php402 million to Php428 million primarily due to the impairment of ePLDT's notes receivable from Technology Support Services, Inc. Please see *Note 12 – Notes Receivable* to the accompanying audited consolidated financial statements for further discussion.

Maintenance expenses increased by Php85 million, or 30%, to Php368 million primarily due to higher hosting-related costs incurred in 2006 as compared to 2005 partially offset by Vitro's lower hardware and server maintenance costs.

Selling and promotion expenses increased by Php173 million, or 144%, to Php293 million mainly due to higher advertising and marketing spending of netGames and Level Up!.

Communication, training and travel expenses increased by Php178 million, or 182%, to Php276 million, primarily due to the increased cost of phone lines, bandwidth and information system charges, coupled with the increase in foreign and local travel costs incurred by our call center and BPO businesses.

An amortization of intangible assets amounting to Php138 million was recognized in 2006 in relation to the acquisition of SPi and Level Up!. See *Note 11 – Goodwill and Intangible Assets* to the accompanying audited consolidated financial statements for further discussion.

Financing costs increased by Php74 million, or 190%, to Php113 million, primarily due to the consolidation of SPi in July 2006.

Taxes and licenses increased by Php34 million, or 94%, to Php70 million due to higher business-related taxes accrued and paid in 2006 as compared to 2005.

Provisions increased by Php10 million, or 19%, to Php64 million mainly due to anticipated uncollectible accounts specifically identified in 2006.

ePLDT's equity share in net losses of associates amounted to Php52 million in 2006, primarily due to ePLDT's share in net losses of SPi's associate.

Insurance and security services increased by Php21 million, or 150%, to Php35 million, primarily due to higher premium costs and an increase in the value of assets insured in 2006 as compared to 2005.

Other expenses decreased by Php61 million, or 31%, to Php139 million mainly due to lower business-related costs as part of our cost-cutting measures.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php37 million in 2006 primarily due to the recognition of deferred tax assets pertaining to accrued pension cost, net operating loss carry-over and allowance for doubtful accounts, as compared to a provision for income tax of Php12 million in 2005.

Net Income (Loss)

In 2006, our information and communications technology business segment registered a net loss of Php312 million as against a net income of Php46 million in 2005 mainly as a result of a 118% increase in ICT-related expenses and the recent opening of two call centers, partly offset by the increase in ICT revenues mainly from our call center business and the consolidation of SPi.

2005 Compared to 2004

Wireless

Revenues and Other Income

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

The following table summarizes our service and non-service revenues and other income from our wireless business for the years ended December 31, 2005 and 2004 by service segment:

	Years ended December 31,					
					Increase (Decrease)	
	2005	%	2004	%	Amount	%
(in millions)						
Wireless services:						
Service Revenues						
Cellular	Php72,409	91	Php66,782	83	Php5,627	8
Wireless broadband, satellite, VSAT, and others	2,268	3	2,233	3	35	2
	74,677	94	69,015	86	5,662	8
Non-service Revenues						
Sale of cellular handsets and SIM-packs	3,036	4	6,111	8	(3,075)	(50)
Other Income	1,445	2	4,597	6	(3,152)	(69)
Total Wireless Revenues and Other Income	Php79,158	100	Php79,723	100	(Php565)	(1)

Service Revenues

Our wireless service revenues increased by Php5,662 million, or 8%, to Php74,677 million in 2005 compared to Php69,015 million in 2004, mainly as a result of the growth of Smart's and Piltel's subscriber base. Accordingly, as a percentage of our total wireless revenues and other income, service revenues increased to 94% in 2005 from 86% in 2004.

Cellular Service

Our cellular service revenues in 2005 amounted to Php72,409 million, an increase of Php5,627 million, or 8%, from Php66,782 million in 2004. Cellular service revenues accounted for 97% of our wireless service revenues in 2005 and 2004.

As at December 31, 2005, Smart and Piltel cellular subscribers reached 20,408,621, an increase of 1,200,389, or 6%, over their combined cellular subscriber base of 19,208,232 as at December 31,

2004. Prepaid subscribers accounted for 99% of our total subscriber base as at December 31, 2005 and 2004. Prepaid and postpaid net subscriber activations totaled 1,194,805 and 5,584, respectively, reflecting a total net activation of 1,200,389 in 2005. Postpaid subscribers as at December 31, 2005 were higher than as at December 31, 2004 primarily due to increased net activations in the last two quarters of 2005.

The following table summarizes key measures of our cellular business as at and for the years ended December 31, 2005 and 2004:

	Years Ended December 31,			
			Increase	
(in millions)	**2005**	**2004**	**Amount**	**%**
Cellular service revenues	Php72,409	Php66,782	Php5,627	8
By component	*70,507*	*65,240*	*5,267*	*8*
Voice	35,444	33,412	2,032	6
Data	35,063	31,828	3,235	10
By service type	*70,507*	*65,240*	*5,267*	*8*
Prepaid	66,023	61,047	4,976	8
Postpaid	4,484	4,193	291	7
Others[(1)]	*1,902*	*1,542*	*360*	*23*

(1) Refers to other non-subscriber-related revenues consisting primarily of inbound international roaming fees, revenues from Smart's public calling offices and payphone businesses, revenues from Wolfpac and Smart Money Holdings Corporation and a small number of leased line contracts.

	Years Ended December 31,			
			Increase	
	2005	**2004**	**Amount**	**%**
Cellular subscriber base	20,408,621	19,208,232	1,200,389	6
Prepaid	20,128,543	18,933,738	1,194,805	6
Smart	15,144,118	14,321,288	822,830	6
Piltel	4,984,425	4,612,450	371,975	8
Postpaid	280,078	274,494	5,584	2
Systemwide traffic volumes (in millions)				
Calls (in minutes)	5,467	5,037	430	9
Domestic	3,741	3,576	165	5
International	1,726	1,461	265	18
Inbound	1,557	1,292	265	21
Outbound	169	169	–	–
Text messages	95,959	40,952	55,007	134
Standard	40,781	38,781	2,000	5
Bucket-priced	52,373	–	52,373	100
Value-added Services	2,805	2,171	634	29

Voice Services

Cellular revenues from voice services, which include all voice traffic and voice value-added services such as voice mail and international roaming, increased by Php2,032 million, or 6%, to Php35,444 million in 2005 from Php33,412 million in 2004, primarily due to an increase in subscriber base and inbound international revenues which compensated for an 18% drop in the average outbound voice usage per subscriber from 19 minutes per month in 2004 to 16 minutes per month in 2005.

Air time rates for postpaid subscribers vary depending on the type of postpaid plan selected by subscribers. Beginning January 25, 2004, *Smart Gold, Smart Infinity* and *addict mobile* launched flat rate-regular plans and consumable plans.

Data Services

Cellular revenues from data services, which include all text messaging-related services as well as value-added services, increased by Php3,235 million, or 10%, to Php35,063 million in 2005 from Php31,828 million in 2004. Cellular data services accounted for 48% of cellular service revenues in 2005 and 2004.

The following table shows the breakdown of cellular data revenues for the years ended December 31, 2005 and 2004:

	Years Ended December 31,			
			Increase (Decrease)	
(in millions)	**2005**	**2004**	**Amount**	**%**
Text messaging				
Domestic	Php29,110	Php26,026	Php3,084	12
Standard	25,580	26,026	(446)	(2)
Bucket-priced	3,530	–	3,530	100
International	1,699	1,869	(170)	(9)
	30,809	27,895	2,914	10
Value-added services				
Non-Zed(1)	2,290	1,762	528	30
Smart Zed™	523	564	(41)	(7)
Smart Money	84	61	23	38
Mobile Banking	5	6	(1)	(17)
Roaming SMS and WAP	1,352	1,540	(188)	(12)
	4,254	3,933	321	8
Total	Php35,063	Php31,828	Php3,235	10

(1) Value-added services developed by Smart on its own platform.

Text messaging-related services contributed revenues of Php30,809 million in 2005, an increase of Php2,914 million, or 10%, compared to Php27,895 million in 2004, and accounted for 88% of the total cellular data revenues in 2005 and 2004. The decrease in revenues from standard text messaging-related services resulted mainly from the introduction of bucket-priced promotions. Text messaging revenues from bucket-priced promotions totaled Php3,530 million. Value-added services contributed revenues of Php4,254 million in 2005, increased by Php321 million, or 8%, from Php3,933 million in 2004 primarily due to increased *Pasa Load* transactions, ringtone/logo download activities, info-on-demand as well as increased *Smart Money* usage emanating from *Smart Padala* and *Smart Load* retailers' use of *Smart Money* to replenish their load wallet.

Subscriber Base, ARPU and Churn Rates

Prepaid subscribers accounted for approximately 99% of our 20,408,621 subscribers as at December 31, 2005, while postpaid subscribers accounted for the remaining 1%. The cellular prepaid subscriber base grew by 6% to 20,128,543 as at December 31, 2005 from 18,933,738 as at December 31, 2004, whereas the postpaid subscriber base increased by 2% to 280,078 as at December 31, 2005 from 274,494 as at December 31, 2004.

Our net subscriber activations for the years ended 2005 and 2004 were as follows:

	Years Ended December 31,			
			Decrease	
	2005	**2004**	**Amount**	**%**
Prepaid	1,194,805	6,235,518	(5,040,713)	(81)
Smart	822,830	4,490,153	(3,667,323)	(82)
Piltel	371,975	1,745,365	(1,373,390)	(79)

Postpaid	5,584	25,517	(19,933)	(78)
Total	1,200,389	6,261,035	(5,060,646)	(81)

Our quarterly net subscriber activations (reductions) for 2005 and 2004 were as follows:

	2005				2004			
	1Q	**2Q**	**3Q(1)**	**4Q(1)**	**1Q**	**2Q**	**3Q**	**4Q**
Prepaid	1,050,638	536,840	(11,230)	(381,443)	1,380,339	1,676,314	1,433,664	1,745,201
Smart	920,885	314,607	(53,953)	(358,709)	1,162,301	1,207,542	797,686	1,322,624
Piltel	129,753	222,233	42,723	(22,734)	218,038	468,772	635,978	422,577
Postpaid	(6,357)	116	10,506	1,319	16,866	7,691	10,445	(9,485)
Total	1,044,281	536,956	(724)	(380,124)	1,397,205	1,684,005	1,444,109	1,735,716

(1) Subscriber reductions were attributable to the termination of our SIM-swapping promotion in May 2005.

Revenues attributable to our cellular prepaid service amounted to Php66,023 million in 2005, an 8% increase over the Php61,047 million earned in 2004. Prepaid service revenues accounted for 94% of voice and data revenues in 2005 and 2004, respectively. Revenues attributable to Smart's postpaid service amounted to Php4,484 million in 2005, a 7% increase over the Php4,193 million earned in 2004 and accounted for 6% of voice and data revenues.

The following table summarizes our cellular ARPUs for the years ended December 31, 2005 and 2004:

	Gross		Increase (Decrease)		Net		Increase (Decrease)	
	2005	**2004**	**Amount**	**%**	**2005**	**2004**	**Amount**	**%**
Prepaid								
Smart	Php357	Php428	(Php71)	(17)	Php294	Php355	(Php61)	(17)
Piltel	257	311	(54)	(17)	212	259	(47)	(18)
Prepaid – Blended	332	401	(69)	(17)	274	333	(59)	(18)
Postpaid – Smart	1,869	1,741	128	7	1,368	1,286	82	6
Prepaid and Postpaid Blended	353	424	(71)	(17)	289	349	(60)	(17)

Prepaid service revenues consist mainly of charges for subscribers' actual usage of their loads. Gross monthly ARPU for Smart prepaid subscribers in 2005 was Php357, a decrease of 17%, compared to Php428 in 2004. This decline was attributable mainly to a decrease in the average text messaging revenue per subscriber as well as lower average outbound local and international voice revenue per subscriber and lower average inbound revenue per subscriber in 2005. On a net basis, ARPU in 2005 decreased by 17% to Php294 from Php355 in 2004. Gross monthly ARPU for *Talk 'N Text* subscribers in 2005 was Php257, a decrease of 17% compared to Php311 in 2004. The decline was similarly attributable to a decrease in the average text messaging revenue per subscriber as well as lower average outbound local and international voice revenue per subscriber and lower average inbound revenue per subscriber in 2005. On a net basis, ARPU in 2005 decreased by 18% to Php212 from Php259 in 2004.

Gross monthly ARPU for postpaid subscribers increased by 7% to Php1,869 while net monthly ARPU increased by 6% to Php1,368 in 2005 as compared to Php1,741 and Php1,286 in 2004, respectively. Prepaid and postpaid monthly gross blended ARPU was Php353 in 2005, a decrease of 17% compared to Php424 in 2004. Monthly net blended ARPU decreased by 17% to Php289 in 2005 from Php349 in 2004.

Our quarterly prepaid and postpaid ARPUs for 2005 and 2004 were as follows:

	Prepaid				**Postpaid**	
	Smart		**Piltel**		**Smart**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2005						
First Quarter	Php356	Php289	Php269	Php220	Php1,767	Php1,257
Second Quarter	357	294	262	212	1,896	1,360
Third Quarter	343	285	234	194	1,889	1,389
Fourth Quarter	370	308	261	220	1,923	1,467
2004						
First Quarter	Php463	Php383	Php341	Php287	Php1,736	Php1,326
Second Quarter	455	380	341	289	1,683	1,239
Third Quarter	399	329	287	241	1,780	1,176
Fourth Quarter	395	328	275	220	1,763	1,402

For Smart prepaid, the average monthly churn rate for 2005 was 4.0%, compared to 2.7% in 2004, while the average monthly churn rate for Talk ‘N Text subscribers was 5.5% in 2005 compared to 3.5% in 2004. The increased churn in our prepaid service can be attributed primarily to the termination of “SIM-swapping” activities described above.

The average monthly churn rate for Smart's postpaid subscribers for 2005 was 2.0%, compared to 1.4% in 2004, as a result of increased competition in this market segment. Smart's policy is to redirect outgoing calls to an interactive voice response system if the postpaid subscriber's account is either 45 days overdue or the subscriber has exceeded the prescribed credit limit. If the subscriber does not make a payment within 44 days of redirection, the account is disconnected. Within this 44-day period, a series of collection activities are implemented, involving the sending of a collection letter, call-out reminders and collection messages via text messaging.

Wireless Broadband, Satellite, VSAT and Other Services

Our revenues from wireless broadband, satellite, VSAT and other services consist mainly of rentals received for the lease of Mabuhay Satellite's transponders and Telesat's VSAT facilities to other companies, wireless broadband service revenues for Smart Broadband, charges for ACeS Philippines’ satellite phone service and service revenues generated from a PLDT Global subsidiary’s mobile virtual network operations. Smart Broadband offers a number of wireless broadband services with 25,428 subscribers as of December 31, 2005, including 21,759 Smart Bro subscribers.

In March 2005, we introduced PLDT WeRoam, a wireless broadband service offering running on Smart’s nationwide wireless network (using GPRS, EDGE and WiFi technologies) and PLDT’s extensive IP infrastructure. Some of the recent enhancements to the service are the inclusion of international roaming in key roaming countries all over the globe and national WiFi roaming access. Principally targeted to the corporate market, the service has experienced a take-up of more than 5,000 contracted customers as of December 31, 2005.

Gross revenues from these services for 2005 amounted to Php2,268 million, an increase of Php35 million, or 2%, from Php2,233 million in 2004.

Non-service Revenues

Our wireless non-service revenues decreased by Php3,075 million, or 50%, to Php3,036 million in 2005 as compared to Php6,111 million in 2004, primarily due to lower handset sales. In 2005, activations were driven more by SIM-pack sales and SIM swap activities up to May 2005.

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. Our wireless business segment generated other income of Php1,445 million in 2005, a decrease of Php3,152 million, or 69%, as compared to Php4,597 million in 2004, primarily as a result of the net gain of Php4,419 million relating to Piltel's debt/swap exchange recognized in 2004.

Expenses

Expenses associated with our wireless business in 2005 amounted to Php40,694 million, a decrease of Php7,326 million, or 15%, from Php48,020 million in 2004. A significant portion of this decrease was attributable to lower cost of sales, financing costs, and selling and promotions, partially offset by higher cash expenses, particularly rent, maintenance and compensation and benefits. As a percentage of our total wireless revenues and other income, expenses associated with our wireless business decreased to 51% in 2005 from 60% in 2004.

Cellular business expenses accounted for 95% of our wireless business expenses, while satellite, VSAT, wireless broadband and other business expenses accounted for the remaining 5% of our wireless business expenses in 2005 and 2004.

The following table summarizes the breakdown of our wireless-related expenses for the years ended December 31, 2005 and 2004 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
(in millions)	**2005**	**%**	**2004**	**%**	**Amount**	**%**
Wireless services						
Depreciation and amortization	Php10,156	25	Php10,940	23	(Php784)	(7)
Cost of sales	6,148	15	11,122	23	(4,974)	(45)
Rent	5,592	14	3,962	8	1,630	41
Compensation and benefits(1)	4,249	11	3,341	7	908	27
Maintenance	3,655	9	2,597	5	1,058	41
Selling and promotions	3,418	8	4,261	9	(843)	(20)
Professional and other contracted services	1,656	4	1,241	3	415	33
Taxes and licenses	1,544	4	1,215	2	329	27
Communication, training and travel	960	2	791	2	169	21
Insurance and security services	947	2	937	2	10	1
Provisions	575	1	417	1	158	38
Financing costs	513	1	5,137	11	(4,624)	(90)
Amortization of intangible assets	244	1	155	–	89	57
Asset impairment	–	–	430	1	(430)	(100)
Equity share in net losses of associates	–		72	–	(72)	(100)
Other expenses	1,037	3	1,402	3	(365)	(26)
Total	Php40,694	100	Php48,020	100	(Php7,326)	(15)

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

Depreciation and amortization charges decreased by Php784 million, or 7%, to Php10,156 million in 2005, substantially due to a decrease in the depreciable asset base as certain of our wireless assets were fully depreciated by the end of 2004 and partially offset by the effect of our change in estimated useful lives of certain components of property, plant and equipment consistent with the requirements of Philippine Accounting Standards, or PAS, 16, which increased depreciation charges in 2005. For further details, see *Note 8 – Property, Plant and Equipment* to the accompanying audited consolidated financial statements.

Cost of sales decreased by Php4,974 million, or 45%, to Php6,148 million due to the termination of SIM-swapping activities in May 2005. The breakdown of cost of sales for our wireless business for the years ended December 31, 2005 and 2004 is as follows:

	Years Ended December 31,			
			Decrease	
(in millions)	2005	2004	Amount	%
Cost of cellular handsets and SIM-packs sold	Php5,905	Php10,839	(Php4,934)	(46)
Cost of satellite air time and terminal units	243	283	(40)	(14)
	Php6,148	Php11,122	(Php4,974)	(45)

Rent expenses increased by Php1,630 million, or 41%, to Php5,592 million on account of an increase in DFON facilities leased from PLDT. As at December 31, 2005, we had 4,305 GSM cell sites and 5,982 base stations, compared with 3,951 GSM cell sites and 5,303 base stations as at December 31, 2004.

Compensation and benefits expenses increased by Php908 million, or 27%, to Php4,249 million, primarily due to salary increases, higher long-term incentive and manpower reduction costs of Smart. On the other hand, Smart's employee headcount decreased by 152, or 3%, to 5,087 in 2005 compared to 5,239 in 2004.

Maintenance expenses increased by Php1,058 million, or 41%, to Php3,655 million, mainly on account of higher expenses for electricity and power generation for cell sites and higher repairs and maintenance costs for network facilities.

Selling and promotion expenses decreased by Php843 million, or 20%, to Php3,418 million due to lower advertising and promotion costs incurred.

Professional and other contracted services increased by Php415 million, or 33%, to Php1,656 million, primarily due to increased legal, technical service and payment facility fees.

Taxes and licenses increased by Php329 million, or 27%, to Php1,544 million primarily due to an increase in Smart's business-related taxes.

Communication, training and travel expenses increased by Php169 million, or 21%, to Php960 million, due to higher local travel and training costs, as well as an increase in delivery, freight and hauling expenses incurred in 2005.

Insurance and security services increased by Php10 million, or 1%, to Php947 million, primarily due to the increase in our number of cell sites and in the amount of network equipment insured as a result of the continued growth and expansion of our network.

Provisions increased by Php158 million, or 38%, to Php575 million, primarily due to an increase in write-down of slow-moving handsets to net realizable values, and a net reversal of provision for carrier accounts in 2004 following subsequent collections from such carrier accounts. The breakdown of provisions for the years ended December 31, 2005 and 2004 is as follows:

	Years Ended December 31,			
			Increase	
(in millions)	2005	2004	Amount	%
Doubtful accounts	Php253	Php204	Php49	24
Write-down of inventories to net realizable value	322	213	109	51
	Php575	Php417	Php158	38

Financing costs in 2005 amounted to Php513 million, a decrease of Php4,624 million, or 90%, from Php5,137 million in 2004, primarily as a result of a 6% and 18% appreciation of the Philippine peso to the U.S. dollar and Japanese yen, respectively, from December 31, 2004 to December 31, 2005.

Foreign exchange losses were recorded in 2004 with the peso depreciation of 1% against the U.S. dollar, aggravated by a peso depreciation of approximately 6% against the Japanese yen from December 31, 2003 to December 31, 2004. In addition, interest income increased due to higher cash balances in 2005 as compared to 2004. The breakdown of our financing costs for our wireless business for the years ended December 31, 2005 and 2004 is as follows:

	Years Ended December 31,			
			Change	
(in millions)	**2005**	**2004**	**Amount**	**%**
Accretion on financial liabilities – net	Php2,560	Php3,177	(Php617)	(19)
Interest on loans and related items	1,799	1,754	45	3
Dividends on preferred stock subject to mandatory redemption	251	284	(33)	(12)
Loss (gain) on derivative transactions – net	118	(8)	126	1,575
Financing charges	52	1	51	5,100
Capitalized interest	(85)	(98)	13	13
Interest income	(1,135)	(724)	(411)	(57)
Foreign exchange losses (gains) – net	(3,047)	751	(3,798)	(506)
	Php513	Php5,137	(Php4,624)	(90)

Amortization of intangible assets increased by Php89 million, or 57%, to Php244 million due to the amortization of Meridian's intangible assets from September 2004 onwards.

Asset impairment amounted to Php430 million in 2004, primarily due to impairment losses recognized in respect of our investment in AIL; no impairment charge was recognized in 2005.

Equity share in net losses of associates amounted to Php72 million in 2004, mainly due to net losses incurred by a wireless subsidiary's joint venture investment.

Other expenses decreased by Php365 million, or 26%, to Php1,037 million due to a decline in various business and operational-related expenses such as office supplies expense.

Provision for Income Tax

Provision for income tax increased by Php484 million, or 11%, to Php4,800 million in 2005 from Php4,316 million in 2004, as Smart's income tax holiday expired in the second quarter of 2004 and as Piltel's income tax position reversed from net tax loss in 2004 to net tax payable in 2005. In 2005, the effective tax rate for our wireless business was 12% compared to 14% in 2004 due to the net movement in deferred tax assets as previously unrecognized deferred tax assets were taken-up in 2005 with the increased likelihood that Smart and Piltel would be able to realize the future tax benefits on these assets.

Net Income

Our wireless business segment recorded a net income of Php33,664 million in 2005, an increase of Php6,277 million, or 23%, over Php27,387 million registered in 2004, primarily due to the growth in our cellular service revenues and a 16% decrease in wireless expenses, which more than offset the decreases in our wireless non-service revenues and other income.

Fixed Line

Revenues and Other Income

Our fixed line business provides local exchange service, international and national long distance services, data and other network services, and miscellaneous services. Total fixed line revenues generated from our fixed line business in 2005 totaled Php49,990 million, an increase of Php1,180 million, or 2%, from Php48,810 million in 2004.

The following table summarizes revenues from our fixed line business for the years ended December 31, 2005 and 2004 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
(in millions)	2005	%	2004	%	Amount	%
Fixed line services:						
Service Revenues						
Local exchange	Php18,519	37	Php20,799	43	(Php2,280)	(11)
International long distance	12,245	24	12,803	26	(558)	(4)
National long distance	7,233	14	6,735	14	498	7
Data and other network	10,399	21	7,114	14	3,285	46
Miscellaneous	1,267	3	1,035	2	232	22
	49,663	99	48,486	99	1,177	2
Non-Service Revenues	41	–	–	–	41	100
Other Income	286	1	324	1	(38)	(12)
Total Fixed Line Revenues and Other Income	Php49,990	100	Php48,810	100	Php1,180	2

Service Revenues

Local Exchange Service

The following table summarizes key measures of our local exchange service business as at and for the years ended December 31, 2005 and 2004:

	Years Ended December 31,			
			Increase (Decrease)	
	2005	2004	Amount	%
Total local exchange service revenues (in millions)	Php18,519	Php20,799	(Php2,280)	(11)
Number of fixed line subscribers	1,842,507	1,834,306	8,201	–
Number of fixed line employees	9,197	9,692	(495)	(5)
Number of fixed line subscribers per employee	200	189	11	6

Revenues from our local exchange service decreased by Php2,280 million, or 11%, to Php18,519 million in 2005 from Php20,799 million in 2004. The decrease was primarily due to a decline in the number of fixed line subscribers and the appreciation of the peso which required us to make downward adjustments in our monthly local service rates. The percentage contribution of local exchange revenues to our fixed line service revenues decreased to 37% in 2005 compared to 43% in 2004.

Pursuant to a currency exchange rate adjustment mechanism authorized by the Philippine National Telecommunications Commission, or the NTC, we adjust our 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. During 2005, we implemented six downward adjustments and three upward adjustments in our monthly local service rates compared to six upward adjustments and one downward adjustment in 2004. The average Philippine peso to U.S. dollar rate factored in our monthly local service rates in 2005 was Php55.085 to US$1.00, compared to an average of Php56.044 to US$1.00 in 2004. This change in the average peso-to-dollar rate translated to a peso appreciation of 2%, which resulted in an average net decrease of approximately 1% in our monthly local service rates in 2005.

International Long Distance Service

The following table shows information about our international fixed line long distance business for the years ended December 31, 2005 and 2004:

	Years Ended December 31,			
			Decrease	
	2005	2004	Amount	%
Total international long distance service revenues (in millions)	Php12,245	Php12,803	(Php558)	(4)
Inbound	10,203	10,685	(482)	(5)
Outbound	2,042	2,118	(76)	(4)
International call volumes (in million minutes, except call ratio)	2,266	2,373	(107)	(5)
Inbound	2,117	2,216	(99)	(4)
Outbound	149	157	(8)	(5)
Inbound-outbound call ratio	14.2:1	14.1:1	–	–

Our total international long distance service revenues decreased by Php558 million, or 4%, to Php12,245 million in 2005 from Php12,803 million in 2004 due to the peso appreciation coupled with the decrease in call volumes largely as a result of alternative means of communications such as e-mailing, texting and Internet telephony. The percentage contribution of international long distance service revenues to our fixed line service revenues decreased to 24% in 2005 from 26% in 2004.

Our revenues from inbound international long distance service decreased by Php482 million due to a decrease in inbound traffic volume by 99 million minutes to 2,117 million minutes in 2005. In addition, the 2% appreciation in the average value of the peso to the U.S. dollar to Php55.085 during 2005 from Php56.044 during 2004 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 Php76 million in 2005, primarily due to a decline in outbound call volumes by 8 million minutes to 149 million minutes and the peso appreciation in 2005.

National Long Distance Service

The following table shows our national long distance service revenues and call volumes for the years ended December 31, 2005 and 2004:

	Years Ended December 31,			
			Increase	
	2005	2004	Amount	%
Total national long distance service revenues (in millions)	Php7,233	Php6,735	Php498	7
National long distance call volumes (in million minutes)	2,348	1,930	418	22

Our national long distance service revenues increased by Php498 million, or 7%, to Php7,233 million in 2005 from Php6,735 million in 2004 as a result of an increase in call volumes by 22% to 2,348 million minutes in 2005 from 1,930 million minutes in 2004 mainly due to the Php10 per call promotion offered to PLDT landline subscribers nationwide.

Data and Other Network Services

Our data and other network services in the 2005 posted revenues of Php10,399 million, an increase of Php3,285 million, or 46%, from Php7,114 million in 2004, primarily due to increases in leased lines and IP-based data services, particularly Diginet and DSL, respectively. The revenue contribution of this service segment to our fixed line service revenues increased to 21% in 2005 from 14% in 2004.

The following table shows information about our data and other network service revenues for the years ended December 31, 2005 and 2004:

	Years Ended December 31,			
			Increase	
(in millions)	**2005**	**2004**	**Amount**	**%**
Data and other network service revenues	Php10,399	Php7,114	Php3,285	46
Number of DSL broadband subscribers	88,811	48,289	40,522	84
Number of PLDT Vibe narrowband subscribers	266,703	257,325	9,378	4

Data and other network services we currently provide include leased lines, IP-based, packet-based and switch-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.

Of our total revenues in 2005, leased lines accounted for 55%, IP-based services accounted for 29%, packet-based services accounted for 11% and switched-based services accounted for the remaining 5%, compared to 56%, 25%, 13% and 6%, respectively, in 2004. These percentage increases indicate a continuing demand for broadband services, particularly the high bandwidth clear data requirements of BPOs and call centers. We expect this trend to continue due to growth in the areas of e-commerce, online services and BPOs particularly among call centers, medical transcription, animation and shared services.

As at December 31, 2005, the number of PLDT's fixed line subscribers for *PLDT Vibe* stood at 266,703, of which 97,016 were exclusive postpaid users, 149,973 were exclusive prepaid users, and 19,714 were both postpaid and prepaid users. As at December 31, 2004, *PLDT Vibe* subscribers totaled 257,325, of which 104,148 were exclusive postpaid users, 133,147 were exclusive prepaid users, and 20,030 were both postpaid and prepaid users. In addition, PLDT *DSL* has reached 88,811 subscribers as at December 31, 2005 compared with 48,289 subscribers in 2004. PLDT offers a number of *DSL* packages with speeds and monthly fees varying from 256 kbps to up to 1 Mbps.

Miscellaneous

Miscellaneous service revenues are derived mostly from directory advertising and facilities rental. In 2005, these revenues increased by Php232 million, or 22%, to Php1,267 million from Php1,035 million in 2004. The improvement was mainly due to an increase in co-location charges from more co-location sites coupled with an increase in rent income on duct utilization and cable restoration. The percentage contribution of miscellaneous service revenues to our fixed line service revenues increased to 3% in 2005 from 2% in 2004.

Non-service Revenues

Non-service revenues of Php41 million recognized under our fixed line business represent proceeds of computer sales in 2005 in relation to our DSL promo.

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. In 2005, our fixed line business segment registered a decrease in other income of Php38 million, or 12%, to Php286 million in 2005 from Php324 million in 2004, primarily due to lower service and facility fees.

Expenses

Expenses related to our fixed line business in 2005 totaled Php49,897 million, an increase of Php2,939 million, or 6%, compared to Php46,958 million in 2004. The increase was primarily due to higher depreciation and amortization, compensation and benefits and selling and promotions expenses partially offset by lower financing costs and provisions expenses.

The following table shows the breakdown of our total fixed line-related expenses for the years ended December 31, 2005 and 2004 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
(in millions)	**2005**	**%**	**2004**	**%**	**Amount**	**%**
Fixed line services:						
Depreciation and amortization	Php20,251	41	Php10,125	22	Php10,126	100
Financing costs	8,581	17	14,105	30	(5,524)	(39)
Compensation and benefits[1]	8,541	17	7,792	17	749	10
Maintenance	3,309	7	3,211	7	98	3
Provisions	2,297	5	4,431	9	(2,134)	(48)
Rent	1,712	3	1,700	4	12	1
Selling and promotions	1,567	3	1,159	2	408	35
Professional and other contracted services	1,023	2	1,050	2	(27)	(3)
Insurance and security services	628	1	700	1	(72)	(10)
Taxes and licenses	625	1	762	2	(137)	(18)
Communication, training and travel	447	1	449	1	(2)	–
Cost of sales	53	–	–	–	53	100
Asset impairment	–	–	365	1	(365)	(100)
Other expenses	863	2	1,109	2	(246)	(22)
Total	Php49,897	100	Php46,958	100	Php2,939	6

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

Depreciation and amortization charges increased by Php10,126 million, or 100%, to Php20,251 million mainly due to the effect of our change in estimated useful lives of certain components of property, plant and equipment consistent with the requirements of PAS 16, in line with our continuous network upgrade and expansion, which resulted in increased depreciation charges for 2005, and higher depreciation of our regular asset base primarily resulting from additional completed projects. Please see *Note 8 – Property, Plant and Equipment* to the accompanying audited consolidated financial statements for further discussion.

Financing costs decreased by Php5,524 million, or 39%, to Php8,581 million due to: (1) the strengthening of the peso relative to the U.S. dollar and Japanese yen resulting in foreign exchange gains in 2005 as compared to foreign exchange losses recorded during 2004; (2) lower interest on loans and related items owing to lower debt balances in 2005 as compared to 2004; and (3) lower recorded loss on derivatives in 2005 as compared to 2004. The breakdown of financing costs for our fixed line business for the years ended December 31, 2005 and 2004 is as follows:

	Years Ended December 31,			
			Change	
(in millions)	2005	2004	Amount	%
Interest on loans and related items	Php9,058	Php10,699	(Php1,641)	(15)
Hedge costs	1,234	1,011	223	22
Loss on derivative transactions – net	510	872	(362)	(42)
Accretion on financial liabilities – net	322	235	87	37
Financing charges	150	145	5	3
Interest income	(385)	(248)	(137)	55
Capitalized interest	(419)	(497)	78	(16)
Foreign exchange losses (gains) – net	(1,889)	1,888	(3,777)	(200)
	Php8,581	Php14,105	(Php5,524)	(39)

Compensation and benefits expenses increased by Php749 million, or 10%, to Php8,541 million primarily due to the effect of the collective bargaining agreement-related increases in salaries and benefits and an increase in incentive plan-related accruals, partially offset by a reduction in headcount due to PLDT's MRP.

Maintenance expenses increased by Php98 million, or 3%, to Php3,309 million primarily due to higher maintenance costs for foreign cable and wire facilities as more operating and maintenance-related restorations were incurred in 2005 as compared to 2004.

Provisions decreased by Php2,134 million, or 48%, to Php2,297 million, primarily on account of a lower provision by PLDT for anticipated uncollectible accounts from various specifically identified domestic telecommunications carriers which were provided for in 2004 complemented by a decrease in our write-down of inventories to net realizable value. The breakdown of provisions for our fixed line business for the years ended December 31, 2005 and 2004 is as follows:

	Years Ended December 31,			
			Decrease	
(in millions)	2005	2004	Amount	%
Doubtful accounts	Php1,944	Php3,751	(Php1,807)	(48)
Write-down of inventories to net realizable value	157	361	(204)	(57)
Onerous contracts and assessments	196	319	(123)	(39)
	Php2,297	Php4,431	(Php2,134)	(48)

Rent expenses increased by Php12 million, or 1%, to Php1,712 million due to an increase in international leased circuits and rental charges occupied by various equipments, partially offset by lower rentals for bundled sales/value added service units.

Selling and promotion expenses increased by Php408 million, or 35%, to Php1,567 million, primarily as a result of an increase in PLDT's promotional activities in relation to various products and services, partially offset by lower commissions paid in 2005.

Professional and other contracted services decreased by Php27 million, or 3%, to Php1,023 million primarily due to lower advisory and legal fees in 2005 for various services, partially offset by an increase in facility management fees and collection agency fees.

Insurance and security services decreased by Php72 million, or 10%, to Php628 million, primarily due to lower premiums on property all-risk, industrial all-risk and industrial fire insurance, partially offset by higher security services due to a rate increase for contracted security guards.

Taxes and licenses decreased by Php137 million, or 18%, to Php625 million mainly on account of lower NTC supervision and license fees, fringe benefit taxes in respect of our stock option plan and other business-related taxes paid in 2005 as compared to 2004.

Communication, training and travel expenses decreased by Php2 million to Php447 million due to a decrease in mailing, courier and delivery services, as well as a decrease in local travel and training in 2005 as compared to 2004.

Cost of sales of computers amounting to Php53 million were recognized in 2005 in relation to our DSL promo. No similar charges were incurred in 2004.

Asset impairment amounted to Php365 million in 2004 owing to an impairment of a fixed line subsidiary's facilities; no impairment charge was recognized in 2005.

Other expenses decreased by Php246 million, or 22%, to Php863 million due to lower office supplies consumption and printing costs resulting from PLDT's continuing cost-containing activities.

Provision for (Benefit from) Income Tax

Benefit from income tax amounted to Php676 million in 2005 compared to a provision for income tax of Php585 million in 2004, primarily due to taxable loss of PLDT brought about by higher realized forex in 2005 and the effect of tax rate adjustment.

Net Income

In 2005, our fixed line business segment contributed a net income of Php769 million, a decrease of Php498 million, or 39%, as compared to Php1,267 million in 2004 mainly as a result of a 6% increase in fixed line-related expenses, particularly depreciation and amortization which more than offset the 2% increase in fixed line-related revenues.

Information and Communications Technology

Revenues and Other Income

Our information and communications technology business is conducted by ePLDT and its subsidiaries.

In 2005, our information and communications technology business generated revenues of Php3,438 million, an increase of Php1,023 million, or 42%, from Php2,415 million in 2004. Going forward, we expect revenues from our call center business to continue to contribute significantly to our information and communications technology revenues with the growing demand for our call center services.

The following table summarizes revenues from our information and communications technology business for the years ended December 31, 2005 and 2004 by service segment:

	Years Ended December 31,					
					Increase (Decrease)	
(in millions)	**2005**	**%**	**2004**	**%**	**Amount**	**%**
Service Revenues						
Call center	Php1,944	57	Php1,283	53	Php661	52
Internet and gaming	556	16	569	24	(13)	(2)
Vitro™ data center	376	11	173	7	203	117
Others	77	2	55	2	22	40
	2,953	86	2,080	86	873	42
Non-service Revenues						
Point-of-product sales	351	10	321	13	30	9
Other Income	127	4	14	1	113	807
Equity share in net income of associates	7	–	–	–	7	100
Total ICT Revenues and Other Income	Php3,438	100	Php2,415	100	Php1,023	42

Call Center

Revenues related to our call center business in 2005 increased by Php661 million, or 52%, to Php1,944 million from Php1,283 million in 2004, primarily due to the combined effects of the following:

- Vocativ's upward price adjustment for calls and an increase in programs being handled;
- an upward price adjustment by Parlance for its inbound and outbound projects, coupled with an increase in the number of registered minutes for inbound projects and hours for outbound projects;
- expansion of existing Parlance and Vocativ facilities by 283 and 91 seats, respectively, from 1,109 and 1,099 in 2004 to 1,392 and 1,190 in 2005;
- commencement of Ventus operations in Iloilo in March 2005; and
- continuous ramp up of CSRs by 1,489, or 70%, from a total of 2,136 in 2004 to 3,625 in 2005.

Call center revenues accounted for 66% and 62% of total information and communications technology service revenues in 2005 and 2004, respectively.

Internet and gaming

Revenues from our Internet and gaming businesses in 2005 decreased by Php13 million, or 2%, to Php556 million from Php569 million in 2004, primarily due to a decrease in Infocom's revenues in 2005, which was partially offset by the consolidation of Digital Paradise in June 2004. Our Internet business revenues accounted for 19% and 27% of service revenues from information and communications technology business in 2005 and 2004, respectively.

Vitro™ data center

In 2005, *Vitro*™ contributed revenues of Php376 million, an increase of Php203 million, or 117%, from Php173 million in 2004, primarily due to an increase in co-location revenues, server hosting and other services. *Vitro*™ revenues accounted for 13% and 8% of service revenues from our information and communications technology business in 2005 and 2004, respectively.

Others

Revenues from other businesses related to our information and communications technology segment in 2005 increased to Php77 million from Php55 million in 2004 largely due to IT helpdesk/contact center services rendered coupled with an increase in the number of digital certificates sold.

Non-service Revenues

Non-service revenues consist of sales generated from reselling certain Microsoft licenses, server solutions, networking products, storage products and data security products. In 2005, non-service revenues generated by our information and communications technology business increased by Php30 million, or 9%, to Php351 million compared to Php321 million in 2004, primarily due to higher revenues from sales of networking equipment and Microsoft licenses.

Other Income

All other income/gains which do not fall under service and non-service revenues are included under this classification. Other income generated from our information and communications technology business segment increased to Php127 million in 2005 from Php14 million in 2004 primarily due to Infocom's sale of its *NOW* cable internet business on February 1, 2005.

Equity Share in Net Income of Associates

Equity share in net income of associates amounted to Php7 million in 2005 due to share in the earnings of ePDS, an unconsolidated subsidiary.

Expenses

Expenses associated with our information and communications technology business totaled Php3,380 million in 2005, an increase of Php342 million, or 11%, from Php3,038 million in 2004, primarily due to an increase in cash expenses, particularly compensation and benefits, partly offset by an impairment provision recognized in 2004. As a percentage of our information and communications technology revenues, expenses related to our information and communications technology business were at 98% and 126% for 2005 and 2004, respectively.

The following table shows the breakdown of our total information and communications technology-related expenses for the years ended December 31, 2005 and 2004 and the percentage of each expense item to the total:

	Years Ended December 31,					
					Increase (Decrease)	
(in millions)	2005	%	2004	%	Amount	%
Information and communications technology services:						
Compensation and benefits(1)	Php1,351	40	Php892	29	Php459	51
Depreciation and amortization	415	12	340	11	75	22
Rent	362	11	353	12	9	3
Cost of sales	300	9	230	8	70	30
Maintenance	283	8	316	11	(33)	(10)
Selling and promotions	120	4	61	2	59	97
Communication, training and travel	98	3	70	2	28	40
Professional and other contracted services	82	2	67	2	15	22
Provisions	54	2	3	–	51	1,700
Financing costs	39	1	22	1	17	77
Taxes and licenses	36	1	20	1	16	80
Asset impairment	26	1	617	20	(591)	(96)
Insurance and security services	14	–	7	–	7	100
Equity in net losses of associates	–	–	2	–	(2)	(100)
Other expenses	200	6	38	1	162	426
Total	Php3,380	100	Php3,038	100	Php342	11

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

Compensation and benefits increased by Php459 million, or 51%, to Php1,351 million, mainly due to the expansion of our call center and Internet and gaming businesses, which resulted in an increase in headcount coupled with an increase in salaries, bonuses and various incentives of employees.

Depreciation and amortization charges increased by Php75 million, or 22%, to Php415 million, primarily due to an increase in the depreciable asset base in relation to the expansion of our call center and Internet and gaming businesses.

Rent expenses increased by Php9 million, or 3%, to Php362 million primarily due to Vitro's lease of hosting equipment for use in its Bureau of Internal Revenue project and the expansion of our Internet and call center businesses.

Cost of sales increased by Php70 million, or 30%, to Php300 million primarily due to an increase in the cost of point products sold.

Maintenance expenses decreased by Php33 million, or 10%, to Php283 million primarily due to Vitro's lower hardware maintenance costs related to its IBM and CISCO equipments partially offset by higher hosting-related costs incurred in 2005 as compared to 2004.

Selling and promotion expenses increased by Php59 million, or 97%, to Php120 million mainly as a result of the commercial release of *Khan Online* in February 2005 following the commencement of netGames' commercial operations. Furthermore, Vitro's increase in sales of software products in 2005 as compared to 2004 resulted in higher selling and marketing expenses.

Communication, training and travel expenses increased by Php28 million, or 40%, to Php98 million due to the increased cost of bandwidth and information system charges, coupled by the increase in telecommunications costs incurred by our call center business for its outbound calls. Furthermore, CSR trainings for our call centers during 2005 contributed higher foreign travel and training costs compared to 2004.

Professional and other contracted services increased by Php15 million, or 22%, to Php82 million, primarily due to an increase in consultancy, legal and audit fees in 2005.

Provisions amounted to Php54 million, an increase of Php51 million from 2004 primarily due to specifically identified doubtful accounts pertaining to Infocom as of the end of 2005.

Financing costs increased by Php17 million, or 77%, to Php39 million, primarily due to higher foreign exchange losses from dollar-denominated receivables in 2005 as compared to 2004.

Taxes and licenses increased by Php16 million, or 80%, to Php36 million, mainly on account of documentary stamp taxes paid by ePLDT and Ventus in their issuance of additional capital stock in 2005 as compared to 2004.

Asset impairment in 2004 amounting to Php617 million was due to an impairment provision in relation to an investee company recognized in 2004 compared to Php26 million in 2005.

Insurance and security services increased by Php7 million, or 100%, to Php14 million primarily due to higher premium costs and an increase in the assets insured in 2005 as compared to 2004.

Equity share in net losses of associates amounted to Php2 million in 2004 due to net losses incurred by some unconsolidated ICT subsidiaries in their start-up operations.

Other expenses increased by Php162 million, or 426%, to Php200 million mainly due to recognition of royalty fees to *Khan Online* in 2005 and an increase in other business-related costs.

Provision for Income Tax

Provision for income tax amounted to Php12 million in 2005, a decrease of Php60 million, or 83%, as compared to Php72 million in 2004, primarily due to lower reversal of Infocom's recorded deferred income tax asset in 2005 as compared to 2004.

Net Income (Loss)

In 2005, our information and communications technology business segment registered a net income of Php46 million compared to a net loss of Php695 million posted in 2004 mainly on account of the higher net income contribution of our call center business and impairment provision recognized in 2004, partially offset by Infocom's operating loss in 2005 and Digital Paradise's high operating costs due to its ongoing expansion.

Liquidity and Capital Resources

The following table shows our consolidated cash flows for the years ended December 31, 2006, 2005 and 2004 as well as consolidated capitalization and other selected financial data as of December 31, 2006, 2005 and 2004:

	Years Ended December 31,		
(in millions)	2006	2005	2004
Cash Flows			
Net cash provided by operating activities	Php67,739	Php76,213	Php74,497
Net cash used in investing activities	35,790	11,694	23,939
Capital expenditures	20,674	14,990	21,162
Net cash used in financing activities	44,428	60,794	42,540
Net increase (decrease) in cash and cash equivalents	(13,189)	2,738	7,949

	December 31,	
(in millions)	2006	2005
Capitalization		
Interest-bearing financial liabilities:		
Long-term financial liabilities:		
Long-term debt	Php63,769	Php84,860
Obligations under capital lease	106	344
Preferred stock subject to mandatory redemption	1,369	11,974
	65,244	97,178
Current portion of interest-bearing financial liabilities:		
Notes payable	201	–
Long-term debt maturing within one year	16,184	18,684
Obligation under capital lease maturing within one year	924	754
	17,309	19,438
Total interest-bearing financial liabilities	82,553	116,616
Total equity	104,523	74,369
	Php187,076	Php190,985
Other Financial Data		
Total assets	Php241,892	Php250,197
Property, plant and equipment – net	164,190	176,974
Cash and cash equivalents	16,870	30,059

As at December 31, 2006, our consolidated cash and cash equivalents totaled Php16,870 million. Principal sources of consolidated cash and cash equivalents in 2006 were cash flows from operating activities amounting to Php67,739 million and drawings from Smart's and ePLDT's debt facilities aggregating Php9,724 million, and equity funds raised through the issuance of capital stock amounting to Php66 million. These funds were used principally for capital outlays of Php20,674 million, (including capitalized interest of Php549 million), total debt principal payments of Php29,366 million and interest payments of Php7,528 million.

Principal sources of consolidated cash in 2005 and 2004 were cash flows from operations amounting to Php76,213 million and Php74,497 million, respectively; drawings from long-term and short-term credit facilities totaling Php5,471 million and Php329 million, respectively, in 2005, and Php12,131 million and Php502 million, respectively, in 2004; and equity funds raised through the issuance of capital stock amounting to Php285 million in 2005. These funds were used principally for capital outlays of Php14,990 million (including capitalized interest of Php504 million), payments of long-term and short-term debt totaling Php44,710 million and interest payments of Php10,545 million in 2005; and capital outlays of Php21,162 million, (including capitalized interest of Php595 million), payments of long-term and short-term debt totaling Php42,005 million, interest payments of Php12,310 million and equity funds raised through the issuance of capital stock amounting to Php281 million in 2004.

Operating Activities

Our consolidated net cash flows from operating activities in 2006 decreased by Php8,474 million, or 11%, to Php67,739 million from Php76,213 million in 2005 and increased by Php1,716 million, or 2%, from Php74,497 million in 2004.

A growing portion of our consolidated cash flow is generated by our wireless business, which accounted for 57%, 60% and 61% of our total revenues and other income in 2006, 2005 and 2004. Revenues from our fixed line and information and communications technology services accounted for 38% and 5%, respectively, of our total revenues and other income in 2006, 38% and 2%, respectively, in 2005 and 37% and 2%, respectively, in 2004.

Cash flows from operating activities of our wireless business amounted to Php38,053 million in 2006, a decrease of Php8,493 million, or 18%, compared to Php46,546 million in 2005. However, cash flows from operating activities of our fixed line business increased to Php29,720 million in 2006, compared to Php28,864 million in 2005. The overall decrease in our cash flows from operating activities was primarily due to an increase in working capital requirements with the settlement of various current liabilities complemented by higher billings of accounts receivable. Our wireless business segment accounted for 56% of our cash flows from operating activities while our fixed line segment accounted for 44% in 2006. We believe that our continuing strong cash flows from operating activities on a consolidated basis will allow us to defray our current liabilities despite our current ratio being less than 1:1 as at December 31, 2006.

Until April 2006, Smart was subject to loan covenants that restrict its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders. Smart was able to obtain waivers from Finnvera and certain of its lenders for each of the dividend payments made by Smart to PLDT in March 2006, 2005, 2004, 2003 and 2002 aggregating Php7,000 million, Php19,717 million, Php16,100 million, Php6,166 million and Php1,540 million, respectively. In 2005, Smart redeemed 380.8 million preferred shares previously issued to PLDT at a redemption price of Php13.875 per share, or a total redemption price aggregating to Php5,283 million.

Payments made by Smart to PLDT after April 2006 did not require prior creditor consent as all loan facilities that contain such restrictions have already been repaid. In March 2007, June 2006 and September 2006, dividend payments received from Smart amounted to Php8,000 million, Php7,000 million and Php6,600 million, respectively. In addition, Smart redeemed 392 million preferred shares at a total redemption price of Php5,441 million in June 2006.

Investing Activities

Net cash used in investing activities amounted to Php35,790 million in 2006, an increase of Php24,096 million, or 206%, compared to Php11,694 million in 2005 and a decrease of Php12,245 million, or 51%, from Php23,939 million in 2004. The increase in 2006 was primarily a result of: (1) an increase in capital expenditures by Php5,684 million; (2) payments for purchase of investments by Php10,642 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 Php347 million; (d) the acquisition of approximately 25.5% equity interest in Philweb for Php637 million; and (e) the acquisition of the remaining 20% equity in Wolfpac for Php30 million; and (3) the increase in short-term investments by Php6,710 million in 2006 as compared to a decrease in 2005 mainly due to Smart's increased investment in money market placements with over 90 days maturity in 2006 compared to the maturity of Smart's prepaid forward exchange contracts in 2005. The decrease in 2005 resulted from a decline in capital expenditures partially offset by an increase in short-term investments.

Our consolidated capital expenditures in 2006 totaled Php20,674 million, an increase of Php5,684 million, or 38%, from Php14,990 million in 2005 primarily due to Smart's and PLDT's higher capital spending. 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 call center expansion. The balance represented other subsidiaries' capital spending. Consolidated capital expenditures in 2005 amounted to Php14,990 million, of which Php8,786 million, Php5,500 million and Php620 million were attributable to Smart, PLDT and ePLDT, respectively. The balances were spent by other subsidiaries mainly PLDT Global, Mabuhay Satellite and Maratel. In 2004, consolidated capital expenditures amounted to Php21,162 million, of which Php14,721 million, Php5,794 million, Php517 million and Php80 million were attributable to Smart, PLDT, ePLDT and PLDT Global, respectively. The balance represented other subsidiaries' capital spending.

Our net cash used in investing activities decreased by Php12,245 million, or 51% in 2005 to Php23,939 million in 2004 due to lower capital expenditures by Php6,172 million partially offset by an increase in short-term investments of Php3,414 million The decline in capital expenditures in 2005 was largely attributable to Smart's and PLDT's lower capital spending. Smart's capital spending of Php8,786 million in 2005 was used to further expand and upgrade its transmission network facilities to increase capacity and coverage in respect of basic and advanced cellular services. PLDT's capital spending of Php5,500 million was used to finance the expansion of its fixed line data and IP-based network services.

Financing Activities

On a consolidated basis, we used net cash of Php44,428 million for financing activities in 2006, compared to Php60,794 million in 2005 and Php42,540 million in 2004. The net cash used in financing activities in 2006 was mainly utilized for debt repayments and interest payments by PLDT and Piltel in line with their ongoing debt reduction programs, and dividend payments distributed by PLDT to its common and preferred stockholders while net cash used in financing activities in 2005 and 2004 was mainly attributable to debt repayments by PLDT in line with its ongoing debt reduction program and dividend payments distributed to common and preferred stockholders and interest payments.

Debt Financing

Additions to our consolidated long-term debt in 2006 totaled Php9,724 million mainly from Smart's drawings related to the financing of its Phases 8 and 9 GSM facilities. Payments in respect of principal and interest of our total debt amounted to Php29,366 million and Php7,528 million, respectively, in 2006, of which Php16,593 million and Php6,123 million were attributable to PLDT, respectively.

The following table shows our long-term debt, including current portion as of December 31, 2006 and 2005:

(in millions)	December 31, 2006	December 31, 2005	Increase (Decrease) Amount	Increase (Decrease) %
U.S. Dollar Debt:				
Export Credit Agencies-Supported Loans	Php14,981	Php23,126	(Php8,145)	(35)
Fixed Rate Notes	40,971	52,354	(11,383)	(22)
Term Loans	18,611	14,288	4,323	30
Restructured Loans	–	4,767	(4,767)	(100)
Satellite Acquisition Loans	2,083	3,040	(957)	(31)
	76,646	97,575	(20,929)	(21)
Japanese Yen Debt:				
JBIC's Overseas Investment Loan	–	3,139	(3,139)	(100)
Export Credit Agency-Supported Loan	–	709	(709)	(100)
	–	3,848	(3,848)	(100)
Philippine Peso Debt:				
Peso Fixed Rate Corporate Notes	808	1,576	(768)	(49)
Term Loans	2,499	166	2,333	1,405
Restructured Loans	–	379	(379)	(100)
	3,307	2,121	1,186	56
	Php79,953	Php103,544	(Php23,591)	(23)

For a complete discussion of long-term debt, see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements.

Our long-term debt decreased by Php23,591 million, or 23%, to Php79,953 million as at December 31, 2006, largely due to debt amortizations and prepayments in line with PLDT's efforts to reduce its overall debt level, and also due to the appreciation of the peso. PLDT's debt was reduced by 29% to Php52,443 million by December 31, 2006. In addition, the debt levels of Smart, Mabuhay and ePLDT decreased by 6%, 31% and 65%, respectively, to Php25,371 million, Php2,083 million and Php57 million, respectively, as at December 31, 2006 due to amortizations and prepayments during 2006.

On October 16, 2006, Smart signed a U.S. Dollar Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM Facility for an amount of US$50 million. As at December 31, 2006, this facility remained undrawn. Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements for a detailed discussion of our long-term debt.

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as at December 31, 2006 are as follows:

Year	US$ Loans		Peso Loans	Total
2007	US$327	Php16,032	Php289	Php16,321
2008	147	7,211	555	7,766
2009	294	14,429	556	14,985
2010	71	3,471	1,366	4,837
2011	15	728	555	1,283
2012 and onwards	830	40,715	–	40,715
	US$1,684	Php82,586	Php3,321	Php85,907

Approximately Php45,192 million principal amount of our consolidated outstanding long-term debt as at December 31, 2006 is scheduled to mature over the period from 2007 to 2011. Of this amount, Php26,009 million was attributable to PLDT, Php17,043 million to Smart and the remainder to Mabuhay Satellite, Maratel and ePLDT.

Covenants

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

Please see *Note 17 – Interest-bearing Financial Liabilities* to the accompanying audited consolidated financial statements for a detailed discussion of our covenants.

Financing Requirements

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

As a result of our improving cash flows and reduced debt levels, we restored the payment of dividends in May 2005 and currently intend to gradually increase our dividend payout ratio in succeeding years as we improve our leverage ratios. For 2006, our dividend payout ratio was 60% which we currently intend to increase to 70% in 2007.

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 and Poor's	Foreign Currency Senior Unsecured Debt Rating	BB+	Stable
Moody's Investor Service	Foreign Currency Senior Unsecured Debt Rating	Ba2	Stable
	Local Currency Corporate Family Rating	Baa3	Positive
Fitch	Long-term Foreign Currency Rating	BB	Stable
	Long-term Local Currency Rating	BB+	Stable
	Long-term Foreign Currency Issuer Default Rating	BB+	Stable
	Long-term Local Currency Issuer Default Rating	BBB-	Positive
	National Long-term Rating	AAA(ph1)	Stable

On November 3, 2006, Moody's affirmed PLDT's Ba2 senior unsecured foreign currency rating and changed its outlook to stable from negative. The rating action was prompted by the change in outlook on the Philippines Ba3 country ceiling for foreign currency bonds to stable from negative. On July 18, 2006, Moody's upgraded PLDT's local currency corporate family rating from Ba1 to Baa3 with a positive outlook.

On August 18, 2006, Fitch upgraded PLDT's long-term foreign currency IDR to "BB+" from "BB" with a stable outlook, at the same time upgrading PLDT's global bonds and senior notes to "BB+" from "BB" and affirmed PLDT's long-term local currency IDR of "BBB-" with a positive outlook. Following the licensing of Fitch to provide National ratings in the Philippines, Fitch assigned PLDT a National long-term rating of "AAA(ph1)" with a stable outlook. The ratings action follows Fitch's announcement that it has upgraded the Country Ceiling on the Republic of the Philippines to "BB+" from "BB."

On August 30, 2006, Standard & Poor's Ratings Services affirmed its 'BB+' foreign currency rating on PLDT with stable outlook. At the same time, the rating on PLDT's Series III Preferred Stock has been withdrawn as the preferred stock have been fully converted into common equity.

Equity Financing

PLDT raised Php63 million and Php275 million from the exercise by certain officers and executives of stock options in 2006 and 2005, respectively. In addition, through our subscriber investment plan, or SIP, 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 Php10 million in 2006 and 2005, respectively.

Cash dividend payments in 2006 amounted to Php14,913 million, of which Php14,447 million and Php465 million were paid to common and preferred shareholders, respectively, compared to Php10,972 million, of which Php9,587 million and Php1,385 million were paid to common and preferred shareholders, respectively, in 2005.

The following table sets forth dividend payments on shares of PLDT's common stock for 2006 and 2005:

	Date			Amount	
Class	**Declaration**	**Record**	**Paid**	**Per Share**	**Total**
Common Stock	March 1, 2005	March 31, 2005	May 12, 2005	Php14.00	Php2,372
	May 5, 2005	June 3, 2005	July 14, 2005	21.00	3,139
	November 8, 2005	November 28, 2005	December 28, 2005	21.00	3,625
	February 27, 2006	March 20, 2006	April 20, 2006	28.00	5,059
	August 8, 2006	August 21, 2006	September 21, 2006	50.00	9,346
	March 6, 2007	March 20, 2007	April 20, 2007	50.00	9,428

As at December 31, 2006, there were 188.4 million PLDT common shares outstanding compared to 180.8 million common shares outstanding as at December 31, 2005.

Contractual Obligations and Commercial Commitments

Please refer to *Note 22 - Contractual Obligations and Commercial Commitments* to the accompanying audited consolidated financial statements in Item 7.

Quantitative and Qualitative Disclosures about Market Risks

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

Liquidity Risk Management

We seek to manage our liquidity profile to be able to finance our capital expenditures and service our maturing debts. To cover our financing requirements, we currently intend to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flow information and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, and debt capital and equity market issues.

Foreign Currency Risk Management

As at December 31, 2006, the Philippine peso had appreciated by 8% against the U.S. dollar to Php49.045 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. As at December 31, 2005, likewise, the peso appreciated by 6% to Php53.062 to US$1.00 from Php56.341 to US$1.00 as at December 31, 2004. The revaluation of our foreign-currency denominated assets and liabilities is recognized as foreign exchange gains or losses as at the balance sheet date. Since substantially all of our indebtedness is denominated in U.S. dollars, the appreciation or depreciation of the Philippine peso results in the recognition of foreign exchange gains or losses. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency debt and hedges we carry. As at December 31, 2006, consolidated foreign currency denominated debt amounted to Php76,646 million, a reduction from Php101,423 million as at December 31, 2005. As such, we recognized foreign exchange gains of Php1,967 million and Php4,906 million in 2006 and 2005, respectively.

While a certain percentage of our revenues is either linked to or denominated in U.S. dollars, 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 foreign currencies, mostly in U.S. dollars.

As at December 31, 2006, approximately 96% of our total consolidated debts were denominated in foreign currencies, principally in U.S. dollars. Thus, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase both the principal amount of our unhedged foreign currency-denominated debts (representing 43% of our consolidated debts, or 31% net of our U.S. dollar cash balances as at December 31, 2006), and interest expense on our debt in Philippine peso terms. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, we enter into forward foreign exchange contracts, foreign currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. However, these hedges do not cover all of our exposure to foreign exchange risks.

Specifically, we use forward foreign exchange contracts, foreign currency swap contracts and currency option contracts to manage the foreign currency risk associated with our foreign currency-denominated loans. In order to manage hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of currency option contracts, and fixed to floating coupon only swap agreements. Accounted for as either cash flow hedges or transactions not designated as hedges, changes in the fair value of these instruments are recognized as cumulative translation adjustments in equity until the hedged item is recognized directly as income or expense for the period. As at December 31, 2006, PLDT's outstanding forward foreign exchange contracts, principal-only long-term cross-currency swap contracts and currency option contracts amounted to US$202 million; US$550 million; and US$174 million, respectively. Smart had no outstanding forward foreign exchange contracts as at December 31, 2006.

For further discussions of these contracts, see *Note 24 –Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying audited consolidated financial statements in Item 7.

Interest Rate Risk Management

On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. As at December 31, 2006, PLDT's outstanding interest rate swap contracts amounted to US$63 million. For further discussions of these contracts, see *Note 24 – Financial Assets and Liabilities – Derivative Financial Instruments* to the accompanying audited consolidated financial statements.

We make use of hedging instruments and structures solely for reducing or managing financial risks associated with our liabilities and not for trading or speculative purposes.

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 2006 was 6.2%, compared to 7.6% in 2005.

Other Information

Smart's Fixed Rate Corporate Notes Issue

On February 15, 2007, Smart issued Php5 billion unsecured fixed rate corporate notes, made up of Series A amounting to Php3.8 billion and Series B amounting to Php1.2 billion with five and ten year tenors, respectively. Series A was priced at 5.625%, while Series B was priced at 6.500%. This issue, which drew a distinguished investor base demonstrating the strong investor confidence in Smart's track record and financial capabilities, has the distinction of being one of the lowest-priced peso-denominated debt deals successfully closed in the Philippines. Funds raised from the issuance will be used primarily for Smart's capital expenditures for network improvement and expansion.

Risks and Uncertainties

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. We cannot assure you that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not lead its cellular subscribers to switch to other operators or lead it to increase its marketing expenditures or reduce its 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 shares and to attract new subscribers. Our principal cellular competitor, Globe and Digitel, through its cellular service, *Sun Cellular*, have introduced aggressive marketing campaigns and promotions. In the future, the government may allocate additional frequencies and award additional cellular telecommunications licenses, which would further increase competition.

As a result of competitive pressures, 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, in March 2005, the *Smart 258 Unlimited Call* and *Text 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.

In December 2005, the NTC awarded 3G licenses to existing cellular operators Smart, Globe, Digitel and to a new entrant CURE. The introduction of 3G services in the Philippines may also lead to increased competition and may require Smart to incur additional marketing expenses in order to compete more effectively against the other 3G operators.

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. We cannot assure you 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 the licenses covering 3G cellular services and we have made significant expenses in the roll out of these services. We are also upgrading to a next generation, all-IP network and rolling out a wireless broadband network in order to expand its capability to provide broadband services. These projects 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 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 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 require substantial ongoing capital investment. Our capital expenditures in 2006, 2005 and 2004 totaled Php20,713 million, Php14,990 million and Php21,162 million, respectively. We estimate our capital expenditures for 2007 to be approximately Php22,000 million. Smart's capital spending is focused on expanding and upgrading its core and 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. We cannot assure you 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 results of operations have been, and may continue to be, adversely affected by competition in international long distance service and technologies such as Voice-Over-Internet-Protocoal, or VOIP

The international long distance business was historically 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 or VOIP and broadband capacity; and
- unauthorized traffic termination and bypass routings by international simple resale operators.

We cannot assure you 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. Continued decline in our foreign currency revenues could increase our exposure to risks from declines in the value of the Philippine peso against the U.S. dollar. There can be no assurance 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.

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

As of December 31, 2006, we had consolidated total indebtedness of approximately Php80,154 million and a consolidated ratio of debt to equity (total consolidated debt divided by equity) of 0.77x. Our existing debt contains covenants which, among other things, require PLDT to maintain certain financial ratios on a consolidated and non-consolidated basis, limit our ability to incur indebtedness, make investments, incur expenditures and pay dividends. For a description of some of these covenants, see "— Liquidity and Capital Resources — Financing Activities — Debt Financing — Covenants."

Our substantial 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;

- limit our ability to incur capital expenditure; 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 these financial ratios and other financial tests are depreciation of the peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments of other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries and increases in our interest expense. Since approximately 96% of our total debt is 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. The peso has been subject to significant fluctuations in recent years. From 2002 to 2004, the peso has generally been depreciating from a high of Php49.336 on May 20, 2002 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. As at December 31, 2006, the peso had appreciated by 8% to Php49.045 to US$1.00, from Php53.062 to US$1.00 as at December 31, 2005. There can be no assurance that the peso will not depreciate and be subject to significant fluctuations going forward.

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 the 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.

Our financial position could be materially and adversely affected if the 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 pesos. As at December 31, 2006, 96% of our total consolidated indebtedness was denominated in U.S. dollars and other foreign currencies. As at December 31, 2006, approximately 43% of our consolidated foreign currency-denominated debts were unhedged. A depreciation of the 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 peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations (such as by raising our service rates, including through adjustments to rates for local exchange service based on movements in the peso-to-dollar exchange rate) and other means to offset the resulting increase in our obligations in peso terms. Further, 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.

On the other hand, approximately 33% of PLDT'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 peso against the U.S. dollar reduces our revenues in peso terms and reduces our cash flow from operations.

During the last decade, the peso has generally depreciated against most foreign currencies. In addition, during this period, the Philippine economy has also, from time to time, experienced periods of concentrated peso devaluation and limited availability of foreign currency. Since June 30, 1997, when the Bangko Sentral ng Pilipinas, or BSP, announced that it would let market forces determine the value of the peso, the peso has experienced a significant decline against the U.S. dollar. It depreciated from Php26.376 to US$1.00 on June 30, 1997, to Php56.341 to US$1.00 as of December 31, 2004. The peso has also been subject to significant fluctuations. As at December 31, 2006, the Philippine peso had appreciated by 8% against the U.S. dollar to Php49.045 to US$1.00 from Php53.062 to US$1.00 as at December 31, 2005. The peso has since maintained its appreciating trend, moving to Php48.217 as of March 30, 2007. The peso declined by approximately 1% against the U.S. dollar to Php56.341 to US$1.00 as at December 31, 2004 from Php55.586 to US$1.00 as at December 31, 2003. As at December 31, 2005, likewise, the peso appreciated by 6% to Php53.062 to US$1.00 from Php56.341 to US$1.00 as at December 31, 2004.

The peso may again be subject to significant fluctuations and may depreciate due to a range of factors, including:

- political and economic developments affecting the Philippines;
- 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
- some banks covering their short U.S. dollar positions.

The cellular telecommunications industry may not continue to grow

The majority of our consolidated revenues is 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 approximately 48%. As such, our cellular business is expected to grow at a slower rate as penetration rate increases 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.

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. However, initiatives are undertaken 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.

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

If First Pacific or NTT Communications sells all or a portion of its 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$100 million 10.625% notes due 2007 and its US$250 million 11.375% notes due 2012, and may result in a default under certain of Smart's loan agreements. As of December 31, 2006, Php13,208 million in principal amount of PLDT's indebtedness is directly subject to a change in control or offer to purchase and Php1,273 million in principal amount of Smart's indebtedness is subject to an event of default in the event of a change in control of PLDT. If PLDT fails to complete a required change in control or 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

Smart has publicly stated that it believes that it had ten years from the commencement of its operations, or until August 2004 to conduct a public offering of its shares required under the Public Telecommunications Policy Act, or R.A. 7925,. 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. In September 2004, Senate Bill No. 1675 was filed seeking to amend Section 21 of R.A. 7925. The bill seeks to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-third of its outstanding voting stock are owned and controlled directly or indirectly, by a listed company. The bill is currently pending in the Philippine Senate. However, we cannot assure you that such bill will be enacted and that the franchise of Smart will not be revoked due to Smart's failure to timely conduct a public offering of its 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 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 May 6, 2003. Smart applied for an extension of this provisional authority prior to its expiration. Because PLDT and Smart filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, we cannot assure you 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, we cannot assure you that our franchises, CPCNs and provisional authorities will be renewed. For a description of our licenses, see "Item 1. Description of Business – 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. We cannot assure you 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 revenues and other income 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.

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 pursuant to which utility companies, including us, are permitted to adjust its monthly local exchange service rates according to changes in the peso-to-U.S. dollar exchange rate. 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. A decline in our foreign currency-linked revenues could increase our exposure to risks from declines in the value of the Philippine peso against the U.S. dollar.

PLDT is also subject to a number of national and local taxes. On May 24, 2005, the President signed into law Republic Act No. 9337 ("R.A. 9337") amending certain sections of the National Internal Revenue Code which became effective on November 1, 2005. In particular, the following amendments may negatively impact PLDT's profitability:

- increase of the income tax rate for corporations from 32% to 35% effective November 1, 2005;
- increase in value-added tax, or VAT, rate from 10% to 12% effective February 1, 2006,

- limited claim of input tax credits to 70% of output tax; and
- input tax on capital goods spread evenly over 5 years or estimated useful life, whichever is shorter.

There can be no assurance that the increase in taxes will not have a material adverse effect on PLDT's revenues, profitability and cash flows. In addition, there can be no assurance that PLDT will not be subject to new and/or additional taxes and that PLDT will be able to impose additional charges or fees to compensate for the imposition of such taxes.

On November 21, 2006, the President signed into law R. A. 9631 which repealed the limited claim of input tax credits to 70% of output tax and which became effective on December 6, 2006.

Moreover, the Philippine Congress is considering two Bills that relate to the imposition of franchise tax on telecoms companies. House Bill, or HB, 1469 proposes to re-impose a 5% franchise tax on gross receipts on telephone and telegraph services in lieu of the VAT. HB 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 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 you 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 sought and obtained from a Quezon City trial court, a preliminary injunction restraining the implementation of the memorandum circular. The NTC appealed the issuance of the injunction to the Court of Appeals which, on October 9, 2001, annulled the preliminary injunction, ruling that the NTC had jurisdiction over the matter. On January 10, 2002, the Court of Appeals denied the cellular operators' motion to annul and reverse the decision of the Court of Appeals. On February 22, 2002, Smart filed an appeal with the Supreme Court arguing that the appellate court had erred in ruling that the NTC, and not the trial court, had jurisdiction over its case. On September 2, 2003, the Supreme Court upheld Smart's appeal, reversing and setting aside the decision of the Court of Appeals and affirming that the Quezon City trial court could hear and decide the case. The case was remanded to the Quezon City trial court for continuation of the proceedings. The NTC filed a motion for reconsideration on September 29, 2003 which was denied with finality by the Supreme Court on November 13, 2003. The Supreme Court stated that "considering that the basic issues have already been passed upon and there is no substantial argument to warrant a modification of this court's decision, the court resolves to deny consideration with finality".

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, PLDT 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, the PLDT Group submitted its response to the second consultative paper to the NTC.

In formulating both its responses, the PLDT Group took into account industry interests as well as the broader context of our nation's economic development, drawing on the experience in other countries. The PLDT Group believes 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 that the Philippine economy is highly dependent on. The PLDT Group has 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 PLDT's 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.

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, which may or may not be significant. The success of our acquisitions and investments depends on a number of factors, including:

- the ability to identify suitable opportunities for investment or acquisition;
- the 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's; and
- the 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 its 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.

Failure to achieve and 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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 20-F for the fiscal year ending December 31, 2006, we will be 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 management of the effectiveness of its internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of our internal control over financial reporting.

There can be no assurance regarding our management's, or our independent registered public accounting firm's, conclusion as at December 31, 2006 with respect to the effectiveness of PLDT's internal control over financial reporting. There is a risk that neither our management nor our independent registered public accounting firm will be able to conclude as at December 31, 2006 that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may disagree. If our independent registered accounting firm is not satisfied with our internal control over financial reporting or the level at which our internal control over financial reporting is documented, designed, operated or reviewed, or if the independent registered accounting firm interprets the requirements, rules or regulations differently from us, then it may decline to attest to our management's assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which ultimately could negatively impact the market prices of our common shares and ADSs.

Moreover, 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 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 and economic instability in the Philippines.

On May 10, 2004, the Philippines held a presidential election which resulted in a victory by the incumbent President Arroyo who successfully retained her post. Shortly after the elections, allegations of irregularities in the presidential elections, such as stolen ballots and vote buying intensified. The Philippine Congress commenced an inquiry into a wire tapped audio tape which contains a conversation allegedly between President Gloria Macapagal-Arroyo and a commissioner of the Commission on Elections discussing the vote count on the presidential election. On June 27, 2005, President Gloria Macapagal-Arroyo publicly stated that she did speak to a commissioner of the Commission on Elections in order to protect her votes, but not to influence the outcome of the election. Impeachment complaints based on allegations of culpable violation of the Constitution, graft and corruption and betrayal of public trust were filed against President Arroyo with the Philippine Congress. On September 6, 2005 the Philippine Congress voted to reject the impeachment complaints against President Arroyo.

Recent developments include coup d'etat attempts against the Arroyo administration. On February 24, 2006, President Arroyo declared a state of emergency allowing for warrantless arrests and a temporary take-over of privately-owned utility companies. On March 3, 2006, President Arroyo lifted the state of emergency.

In June 2006, President Arroyo proposed to amend the constitution to a unicameral federal, parliamentary system patterned after the German constitution. Under said system, the country would be split into "states" with each "state" granted a local legislature. There were also plans to remove or ease the current ban on foreign ownership of property, land and commercial organizations in the Philippines. A group of local leaders have banded together in what was known as the "People's Initiative" which caused to further the amendment of the charter. In addition to nationwide campaigns and rallies, a petition was filed with the Supreme Court, or SC, to reform the Constitution. This was junked by the SC on October 25, 2006. Nevertheless, the People's Initiative continues to advocate amendments to the Charter.

The fiscal deficit position of the Philippine government and the ongoing political uncertainty has resulted in increased concerns about the political and economic stability of the country. This, in turn, has resulted in the volatility of the peso against the dollar. 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.

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 recent quake that hit Taiwan 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 7. Financial Statements

Our consolidated financial statements (pages F-1 to F-104) and supplementary schedules (pages S-1 to S-8) listed in the accompanying Index to Financial Statements and Supplementary Schedules on page 140 are filed as part of this annual report.

Item 8. Information on Independent Accountant and Other Related Matters

External Audit Fees and Services

The following table summarizes the fees paid for services billed by our external auditors for the fiscal years ended December 31, 2006 and 2005:

	2006	2005
	(in millions)	
Audit Fees	Php45.8	Php38.1
Tax Fees	–	1.0
All Other Fees	8.9	10.5
Total	**Php54.7**	**Php49.6**

Audit Fees. This category includes the audit of our annual financial statements, review of interim financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

Tax Services. This category includes tax compliance, tax advice and tax planning services performed by our independent auditors.

All Other Fees. This category consists primarily of fees for consultation with respect to our IAS adoption, Sarbanes-Oxley Act 404 compliance initiatives due diligence review for certain projects and out-of-pocket and incidental expenses.

The fees presented above includes out-of-pocket expenses incidental to our independent auditors' work, which amounts do not exceed 5% of the agreed-upon engagement fees.

Our Audit Committee pre-approves all audit and non-audit services as these are proposed or endorsed before these services are performed by our independent auditors.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have no disagreements with our external auditor on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Officers of the Registrant

The following are the names, ages and periods of service, of the incumbent directors/independent directors of the Company, all of whom have been nominated for re-election at the Annual Meeting:

Name	Age	Period during which individual has served as such
Manuel V. Pangilinan	60	November 24, 1998 to present
Napoleon L. Nazareno	57	November 24, 1998 to present
Helen Y. Dee	62	June 18, 1986 to present
Ray C. Espinosa	50	November 24, 1998 to present
Tsuyoshi Kawashima	47	July 11, 2006 to present
Tatsu Kono	54	March 28, 2006 to present
Rev. Fr. Bienvenido F. Nebres, S.J.*	67	November 24, 1998 to present
Corazon S. de la Paz	66	September 25, 2001 to present
Ma. Lourdes C. Rausa-Chan	53	March 6, 2007 to present
Oscar S. Reyes*	60	April 5, 2005 to present
Albert F. del Rosario	67	November 24, 1998 to present
Pedro E. Roxas*	51	March 1, 2001 to present
Alfred V. Ty*	39	June 13, 2006 to present

* Independent Director

The names, ages, positions and periods of service of the incumbent officers of PLDT as of February 28, 2007 are as follows:

Name	Age	Position(s)	Period during which individual has served as such
Manuel V. Pangilinan	60	Chairman of the Board	February 19, 2004 to present
Napoleon L. Nazareno	57	President and Chief Executive Officer	February 19, 2004 to present
Ernesto R. Alberto	45	Senior Vice President Corporate Business Head	May 15, 2003 to present
Rene G. Bañez	51	Senior Vice President Chief Governance Officer	January 25, 2005 to present October 5, 2004 to present
Anabelle L. Chua	46	Treasurer Senior Vice President Corporate Finance and Treasury Head Smart Chief Financial Officer	February 1, 1999 to present February 26, 2002 to present March 1, 1998 to present December 1, 2005 to present
Jun R. Florencio	51	Senior Vice President Audit and Assurance Head Internal Audit and Fraud Risk Management Head	June 14, 2005 to present September 1, 2000 to February 15, 2006 February 16, 2006 to present
Menardo G. Jimenez, Jr.	43	Senior Vice President Corporate Communications and Public Affairs Head Retail Business Head	December 9, 2004 to present December 1, 2001 to June 15, 2004 June 16, 2004 to present
George N. Lim	54	Senior Vice President Network Services Head	February 26, 1999 to present February 1, 2003 to present
Rosalie R. Montenegro	57	Senior Vice President Call Center Business Head	July 10, 2000 to present February 1, 2003 to present
Alfredo S. Panlilio	43	Senior Vice President PLDT Global Corp. President	May 8, 2001 to present June 16, 2004 to present
Claro Carmelo P. Ramirez	46	Senior Vice President International and Carrier Business Head Consumer Affairs Head	July 1, 1999 to present June 16, 2004 to December 4, 2005 December 5, 2005 to present

Name	Age	Position(s)	Period during which individual has served as such
Ma. Lourdes C. Rausa-Chan	53	Corporate Secretary	November 24, 1998 to present
		Senior Vice President, Corporate Affairs and Legal Services Head	January 5, 1999 to present
Victorico P. Vargas	55	Senior Vice President Human Resources Head	February 15, 2000 to present
		International and Carrier Business Head	March 1, 2007 to present
Celso T. Dimarucut(1)	45	First Vice President	January 31, 2003 to present
		Financial Reporting and Control Head	August 16, 2000 to November 15, 2006
		ePLDT Chief Finance Officer	November 16, 2006 to present
June Cheryl C. Furigay	33	Vice President	June 14, 2005 to present
		Financial Reporting and Control Head	November 16, 2006 to present
Florentino D. Mabasa, Jr.	48	First Vice President	February 19, 2004 to present
		Assistant Corporate Secretary	August 2, 1999 to present
Eriberto B. Gesalta	56	First Vice President	September 27, 1999 to present
Ramon B. Rivera, Jr.	56	First Vice President	September 27, 1999 to present
Emiliano R. Tanchico...........................	51	First Vice President	May 8, 2001 to present
Ricardo M. Sison..................................	45	First Vice President	February 26, 2002 to present
Miguela F. Villanueva..........................	55	First Vice President	January 31, 2003 to present
Raymond S. Relucio.............................	49	First Vice President	February 19, 2004 to present
Cesar M. Enriquez................................	54	First Vice President	February 19, 2004 to present
Nerissa S. Ramos	43	First Vice President	January 25, 2005 to present
Richard N. Ferrer	53	First Vice President	January 1, 2005 to present
Ramon Alger P. Obias..........................	54	First Vice President	June 14, 2005 to present
Alfredo B. Carrera................................	52	First Vice President	February 27, 2006 to present
Mario C. Encarnacion	52	Vice President	January 25, 2000 to present
Ma. Luz Natividad A. Lim	50	Vice President	January 25, 2000 to present
Jesus M. Tañedo...................................	55	Vice President	January 1, 2001 to present
Ricardo C. Rodriguez...........................	48	Vice President	February 26, 2002 to present
Leo I. Posadas(2)	40	Vice President	February 26, 2002 to March 5, 2007
Arnel S. Crisostomo	48	Vice President	January 31, 2003 to present
Rebecca Jeanine R. de Guzman	44	Vice President	March 1, 2003 to present
Jose Antonio T. Valdez	42	Vice President	December 1, 2003 to present
Emeraldo L. Hernandez........................	49	Vice President	February 19, 2004 to present
Joseph Nelson M. Ladaban	41	Vice President	February 19, 2004 to present
Anna Isabel V. Bengzon.......................	34	Vice President	January 25, 2005 to present
Roberto G. Pador..................................	54	Vice President	January 25, 2005 to present
Lilibeth F. Pasa	48	Vice President	January 25, 2005 to present
Enrique S. Pascual, Jr.	53	Vice President	January 25, 2005 to present
Jose Lauro G. Pelayo............................	51	Vice President	January 25, 2005 to present
Genaro C. Sanchez	44	Vice President	January 25, 2005 to present
Jose A. Apelo	48	Vice President	June 14, 2005 to present
Ma. Josefina T. Gorres	43	Vice President	June 14, 2005 to present
Emmanuel B. Ocumen	52	Vice President	June 14, 2005 to present
Gerardo C. Peña	54	Vice President	June 14, 2005 to present
Alejandro C. Fabian	58	Vice President	February 27, 2006 to present
Elisa B. Gesalta	48	Vice President	February 27, 2006 to present
Ma. Criselda B. Guhit	44	Vice President	February 27, 2006 to present

(1) Seconded to ePLDT as Chief Finance Officer effective November 16, 2006.
(2) Promoted to First Vice president effective March 6, 2007.

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 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 following is a brief description of the business experience of each of our directors and key officers.

Mr. Manuel V. Pangilinan is the chairman of our board and the managing director of First Pacific. He assumed the chairmanship of our board in February 2004 after serving as president and chief executive officer for over five years since November 1998. During his presidency, he led the successful transformation of PLDT from a traditional plain old telephony service (voice) into a convergent voice, data, video (multi-media) service. He is the chairman of the Governance and Nomination Committee of PLDT. He is also the chairman of the boards of Smart, Piltel, ePLDT and Metro Pacific Investments Corporation. He also holds directorships in Metro Pacific Corporation and Landco Pacific Corporation. In 2005, he was named "Management Man of the Year," a prestigious award that the Management Association of the Philippines bestows on individuals in the business community or government for attaining unquestioned distinction in the practice of management and for contributing to the country's progress. He was chosen for, among his other achievements, engineering the turnaround of PLDT and Piltel through a disciplined convergence strategy consisting of consolidation, diversification and expansion, spearheading PLDT's emergence as one of Asia's most recognized, admired, innovative and best performing telecommunication companies, spurring investor interest in the Philippines by bringing First Pacific and other foreign investors into the Philippines, being an exemplary Filipino capable of effective and ethical leadership and of competing with the best in the international business community, and for an outstanding career that spans business, academe, charitable, non-government, arts and culture, sports and health organizations.

Mr. Napoleon L. Nazareno is the president and chief executive officer of PLDT effective February 19, 2004 and concurrently the president and chief executive officer of Smart and Piltel, positions he has held since January 2000 and November 2004, respectively. He is the chairman of the boards of I-Contacts Corporation, Wolfpac, Smart Broadband and Mabuhay Satellite, and the president of ACeS Philippines. He also holds directorships in Rufino Pacific Tower Condominium Corporation and some subsidiaries of PLDT, namely, ePLDT and PLDT Global. His 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 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 Best Chief Executive Officer of the Year in the Philippines at the 2004, 2005 and 2006 Best-Managed Companies and Corporate Governance Polls conducted by *Asiamoney*, one of Asia's most influential magazines.

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 Rizal Commercial Banking Corporation, Landev Corporation, Manila Memorial Park, Inc., Mapua Information Technology Center, Inc., 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.

Atty. Ray C. Espinosa is the president of ePLDT and Wolfpac. He is the chairman of the subsidiaries of ePLDT, namely Parlance, Vocativ, ePLDT Ventus, SPi, Infocom, Digital Paradise, Airborne Access and Level Up!. 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., Philippine Telecommunications Investment Corporation and some 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. Tsuyoshi Kawashima has been the general manager of NTT Communications Corporation, or NTT Com, Philippine branch since April 2005. He joined NTT Com in October 1999 as senior manager of Global Business Development in the Global Business Division. Prior to that, he occupied various positions in The Long-Term Credit Bank of Japan, Ltd. from 1982 to 1998. Since August 2000, he has been and Executive Advisor of the Company. He serves as a member of the Executive Compensation Committee and as an advisor to the Audit and Finance Committees of PLDT.

Mr. Tatsu Kono is the managing director of Corporate Sales Department, Corporate Division of NTT DoCoMo, Inc. He joined 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 managing director of the Kyoto Sales Office in 1990, the general manager of the Sales Promotion Department in 1989 and the managing director of the Tokyo Sales Office in 1998. He serves as a member of the Governance and Nomination Committee and as an advisor to the Audit and Finance Committees of PLDT.

Rev. Fr. Bienvenido F. Nebres, S.J. is the president of the Ateneo de Manila University and a member of the boards of trustees of several other private educational institutions. He is the chairman of the Audit Committee and a member of the Governance and Nomination Committee of the board of directors of PLDT.

Ms. Corazon S. de la Paz is the vice chairman of the Social Security Commission, the president and chief executive officer of the Social Security System and the chairperson of Equitable-PCI Bank. She is the chairman of the Finance Committee and an advisor to the Audit Committee of the board of directors of PLDT. She has been elected president of the International Social Security Association, an association based in Geneva, Switzerland, to serve as such for a three-year term commencing in September 2004. Until June 30, 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., PCI Leasing and Finance, Inc., PCI Capital Corporation, EBC Investment, Inc., and Ionics Circuits, Inc. She is also a trustee of several educational and non-profit organizations.

Atty. Ma. Lourdes C. Rausa-Chan is senior vice president for corporate and legal affairs and the general counsel and corporate secretary of PLDT. She was the group vice president for legal affairs of Metro Pacific Corporation for 11 years prior to joining PLDT in November 1998. She served as a director of PLDT from December 1999 to February 2001 and from June to December 2002. Ms. Rausa-Chan also serves as corporate secretary of several subsidiaries of PLDT.

Mr. Oscar S. Reyes is the Chairman of Unicapital Securities, Inc. and Link Edge, Inc. He serves as a member of the Audit, Governance and Nomination and Executive Compensation Committees of PLDT and also holds directorships in Bank of the Philippine Islands, CEOs, Inc., DMCI Holdings, Inc., Level Up!, Inc., Manila Water Corporation, Universal Robina Corporation, Sunlife of Canada (Philippines) and of other private corporations. He was a member of the Advisory Board of PLDT for four years until April 2005. Mr. Reyes 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 served as the Management Adviser of Shell Philippines Exploration B.V. and as CEO Adviser of Pilipinas Shell Petroleum Corporation.

Mr. Albert F. del Rosario is the chairman of the board of Gotuaco del Rosario and Associates, Inc., Philippine Indocoil Corporation and Business World Publishing Corporation, the vice chairman of the board of Asia Traders Insurance Corporation, and the president of ADR Holdings, Inc., ARS Reinsurance Brokers, Inc., Management Association of the Philippines 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. 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. Mr. del Rosario also sits on the boards of Infrontier (Philippines) Inc., Smart Communications Philippine Holdings, Inc., LMG Chemicals Corporation, Pacific Plaza Condominium Corporation, Pacific Plaza Towers Condominium Corporation, Six Harmonies Holdings, Inc., Landco Pacific Corporation and Metro Pacific Investments Corporation.

Mr. Pedro E. Roxas is the chairman and/or 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., HPCO, Club Punta Fuego, Roxaco Land Corporation, Roxas & Company, Inc., Fuego Land Corporation, Roxas-Gorgollo Foundation, Fundacion Santiago, Central Azucarera dela Carlota, Inc. and Central Azucarera Don Pedro, Inc. He holds directorships in BDO Private Bank, Batangas Assets Corporation and Hawaiian Philippine Sugar Co. Mr. Roxas is a trustee and/or officer of several non-profit organizations. He serves as a member of the Audit Committee and Executive Compensation Committee of the Board of Directors of PLDT.

Mr. Alfred V. Ty is the vice chairman of Toyota Motor Philippines Corporation, the president of Federalland, Inc. and Asia Pacific Top Management International Resources, the general manager of ASPAC, Shanghai and the corporate secretary of Metropolitan Bank and Trust Corporation. He serves as a member of the Governance and Nomination, Executive Compensation and Finance Committees of the Board of Directors of PLDT and a director of Mirant Global Corporation.

Mr. Ernesto R. Alberto is senior vice president for the corporate business group of PLDT. He has over 20 years of work experience in the areas of corporate banking, relationship management and business development. Prior to joining PLDT in May 2003, he was a vice president and the group head of the national corporate group of Citibank N.A., Manila from 1996 to 2003, and previously served as vice president and group head of the relationship management group of Citytrust Banking Corporation. Mr. Alberto is a director of some subsidiaries of PLDT.

Mr. Rene G. Bañez served as Commissioner of the Philippine Bureau of Internal Revenue from February 2001 to August 2002. Prior to that, he was the Head of Support Services and Tax Management Group of PLDT from January 1999 to January 2001. He served as group vice president for Tax Affairs of Metro Pacific Corporation for three years until December 1998. He is a non-voting member of the Governance and Nomination Committee of the Board of Directors of PLDT.

Ms. Anabelle L. Chua is the treasurer of PLDT and senior vice president for PLDT's corporate finance and treasury sector. She concurrently serves as the Chief Financial Officer of Smart. She was a vice president at Citibank, N.A. where she worked for ten years prior to her appointment as first vice president in March 1998, as treasurer in February 1999 and as a senior vice president on February 26, 2002. She has over 15 years of work experience in the areas of corporate finance, treasury, financial control and credit risk management. Ms. Chua is currently a director of the Philippine Stock Exchange, Inc. and several subsidiaries and affiliates of PLDT. She is also a member of the board of trustees of the PLDT Beneficial Trust Fund.

Mr. Jun R. Florencio is the senior vice president for PLDT's audit and assurance 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 served as the Financial Reporting and Control Head up to March 2000, then as Audit and Assurance Head until he assumed the position of Audit and Fraud Risk Management Head in February 16, 2006. He held various positions in the finance organization of Eastern Telecommunications and was the financial controller of Smart for four years prior to his appointment as vice president and head of the financial reporting and control sector of PLDT in April 1999.

Mr. Menardo G. Jimenez, Jr. is the Retail Business Head of PLDT and served as the Officer-In-Charge of the Mobile Consumer Division of Smart. He managed various broadcasting and production companies in radio, television and stage-theater prior to his appointment as Corporate Communications and Public Affairs Head of PLDT in December 2001. His business experience spans more than 20 years in film and cinema, theater, television advertising, publishing, broadcasting, education and, recently, in the telecommunications sector. As a film producer, he came up with internationally recognized and top-grossing movies and, under Trumpets Theater Company, a company he founded, he produced top musical plays. He had a stint 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 campaign for said company and its radio and television programs. In 1998, Mr. Jimenez was given the Ten Outstanding Young Men (TOYM) Award in Manila for Multi-Media Achievement. In 1999, he received his Ten Outstanding Young Persons (TOYP) of the World Award for Cultural Achievement in Cannes, France. He won the first CEO (Communications Excellence in Organizations) Awards given by the International Association of Business Communicators. In 2006, his further achievements in handling the retail business of PLDT and his stint in Smart as officer-in-charge for marketing were recognized by the Agora Awards which chose him as its Marketing Man of the Year. Mr. Jimenez is the President of the TOYM Foundation, a regular speaker for the Business Matters Foundation and a contributing writer at two major dailies. He is a founder of the Philippine Forum which convenes the young movers of the Philippine business, government, media, art and other sectors in a yearly major forum.

Mr. George N. Lim is senior vice president for the network services group of PLDT. He has over 25 years of work experience in telecommunications management. Prior to his appointment as head of Network Services in February 2003, he served as head of Network Development and Provisioning from February 1999 and as head of Marketing from December 1993. He is a director of some subsidiaries of PLDT and Philippine Home Cable Holdings, Inc.

Ms. Rosalie R. Montenegro concurrently serves as president of Vocativ, Parlance and Ventus which are wholly-owned subsidiaries of ePLDT engaged in the call center business. Prior to her appointment as a senior vice president in July 2000, she served as consumer banking head of ABN-AMRO Savings Bank and as vice president for remote banking of ABN-AMRO Consumer Bank, Singapore Regional Office from 1997 to 1999. She was vice president for global consumer banking (CitiPhone banking) and service quality director of Citibank N.A. from 1985 to 1996 servicing both banking and the credit cards businesses. Ms. Montenegro holds directorships in some subsidiaries of PLDT and ePLDT.

Mr. Alfredo S. Panlilio was senior vice president for the international and carrier business group and previously head of the corporate business group of PLDT. He is currently the president of PLDT Global Corp. He has over 15 years of work experience in the field of business development and information technology. He held management positions at IBM Philippines, Inc. and was the vice president for business development of the Lopez Communications Group (ABS-CBN Broadcasting, Bayan Telecommunications and SKYCable) prior to joining PLDT in July 1999. Mr. Panlilio is also a director of some subsidiaries of PLDT and PLDT Global.

Mr. Claro Carmelo P. Ramirez was senior vice president for the retail business group of PLDT before his appointment as international and carrier business group head in June 2004 and to his current position as Consumer Affairs head. 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 his appointment as senior vice president in July 1999, he was the marketing director of Colgate Palmolive Philippines, Inc. Mr. Ramirez was the Retail Business Head from February 2003 to June 2004 and then served as the International and Carrier Business Head until he was appointed as Consumer Affairs Head in December 2005. He is a director of some subsidiaries of PLDT.

Mr. Victorico P. Vargas is senior vice president for human resources management of PLDT. He has over 20 years of work experience in various industries (insurance, consumer goods, real estate, banking and finance, and telecommunications/IT) in the area of human resource management. Prior to joining PLDT in February 2000, he was 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 is a director of some subsidiaries of PLDT and is a non-voting member of the Governance and Nomination and Executive Compensation Committees of PLDT.

Mr. Celso T. Dimarucut served as Financial Reporting and Control Head of PLDT from August 2002 to November 2006 when he was seconded to ePLDT and elected as its Group Chief Financial Officer. Prior to joining PLDT, he was a vice president and the controller of Piltel and had previously served as the group financial controller for domestic subsidiaries of Metropolitan Bank and Trust Company. He specialized in audit, tax and business advisory services for ten years having worked with an Indonesian firm Prasetio, Utomo & Co. for three years and with SGV & Co. for seven years.

Ms. June Cheryl C. Furigay 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 serves as director and is the Treasurer of some subsidiaries of PLDT.

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 and officers of PLDT or persons nominated to become directors or officers of the Company, except for Eriberto B. Gesalta and Elisa B. Gesalta who are siblings, has any family relationships up to the fourth civil degree either by consanguinity or affinity.

Legal Proceedings

None of the directors, officers and persons nominated to become a director or officer has informed PLDT, and PLDT is not aware of:

(a) any bankruptcy petition filed by or against any business of which any director or officer or person nominated to become a director or officer was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or any criminal proceeding, domestic or foreign, pending against any director or officer or person nominated to become a director or officer, except as noted below;

(c) any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting the involvement of any director, or officer or person nominated to become a director or officer in any type of business, securities, commodities or banking activities; and

(d) any finding by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any director or officer or person nominated to become a director or executive officer, has violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated, which occurred during the past five years.

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, are 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., or GLCI, to be wholly-owned by MTLCI, 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. In a Joint Resolution dated June 7, 2004, the City Prosecution Office of Makati dismissed all charges in the Estafa case against Mr. Pangilinan.

On November 16, 2004, ULCI, through Messrs. Tuason and Merin, filed with the Department of Justice a Petition for Review dated November 6, 2004 assailing the Resolution of the City Prosecution Office. Thereafter, 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 Department of Justice which has yet to act or resolve said Motion.

Mr. Napoleon L. Nazareno, in his capacity as President and Chief Executive Officer of Smart, and other directors and officers of Smart are respondents in I.S. No. 03-K-30778 filed before the Manila Prosecutor's Office by the Philippine Amusement and Gaming Corporation, or PAGCOR, for alleged violation of Presidential Decree 1602. The complaint alleged that Smart's promotional activities constitute gambling and that Smart's officers are criminally liable for violation of the law. The Manila Prosecutor's Office, in a Resolution dated February 17, 2004, dismissed the complaint on the ground of insufficiency of evidence. PAGCOR filed a petition for review with the Department of Justice, or DOJ. The DOJ, in a Resolution dated October 24, 2005, reversed and set aside the Resolution of the Manila Prosecutor's Office. Smart filed a motion for reconsideration of the DOJ's Resolution dated October

24, 2005. In a Resolution dated October 27, 2006, the DOJ granted the motion for reconsideration filed by Smart and dismissed the case against the respondents.

Mr. Napoleon L. Nazareno is a respondent in Criminal Case No. D-480 pending before the 11th Municipal Circuit Trial Court of Valencia-Dimiao Bohol, Criminal Case No. 133235-R pending before the 6th Municipal Trial Court of Cebu City, and I.S. No. 2005-57-B pending before the Municipal Trial Court of Borongan, Samar, all for alleged violation of Section 301 in relation to Section 213 of Presidential Decree 1096 (otherwise known as the National Building Code of the Philippines.) The complaints alleged that Smart built its cell sites without securing building permits and Smart's officers are criminally liable therefore.

The 11th Municipal Trial Court of Valencia-Dimiao Bohol, finding no probable cause to support the complaint, ordered the dismissal of Criminal Case No. D-480 on July 1, 2004. The proceedings in Criminal Case No. 133235-R and I.S. No. 2005-57-B have been suspended pending the submission by Smart of a building permit.

Messrs. Napoleon L. Nazareno and Albert F. del Rosario and other directors and officers of the former PDCP Bank, are respondents in a complaint docketed as I.S. No. 2004-631 which was filed by Chung Hing Wong/Unisteel/Unisco Metals, Inc. with the Department of Justice, for alleged syndicated estafa, estafa thru 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 with the 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 are manifestly unmeritorious. These directors have not personally met the complainants, nor are they parties to the questioned transactions, and as such, could not have deceived the complainants in any manner. Clearly, the elements of these charges are not present. The case is still pending with the Department of Justice.

Mr. Albert F. del Rosario and other former directors/officers and corporate secretary/assistant corporate secretary, including Ma. Lourdes C. Rausa-Chan, 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, or RPC; (d) infidelity in the custody of public documents under Article 226 of the RPC; and (e) grave misconduct. It 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 complaint against Mr. del Rosario involves the first two offenses only and in his capacity as director or Metro Paper and Packaging Products, Inc. It is the opinion of the legal counsels for Mr. del Rosario and Ms. Rausa-Chan that 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.

Mr. Albert F. del Rosario was a former director of Gateway Electronic Corporation, or GEC, which, on November 10, 2004, filed a petition for voluntary insolvency with the Regional Trial Court of Imus, Cavite, Branch 22. The case is docketed as SEC No. 037-04. On December 2, 2004, the court issued an Order declaring GEC insolvent.

Audit, Governance and Nomination, Executive Compensation and Finance 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 finance 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, Fr. Bienvenido F. Nebres, S.J., who chairs the committee, Mr. Pedro E. Roxas and Mr. Oscar S. Reyes. Mr. Tatsu Kono and Mr. Tsuyoshi Kawashima, who are non-independent members of our board of directors, Ms. Corazon S. de la Paz and Mr. Roberto R. Romulo 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, an advisor to the 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 its oversight of PLDT's accounting and financial reporting principles and policies and internal audit controls and procedures;
- in its oversight of the integrity of PLDT's financial statements and the independent audit thereof;
- in its oversight of PLDT's compliance with legal and regulatory requirements;
- in selecting and recommending the external auditors to be appointed by our board of directors, evaluating such external auditors' qualifications and independence and, where deemed appropriate, replacing the external auditors; and
- in its oversight of the performance of the internal auditing organization and the external auditors.

With respect to the external auditors, the audit committee has the following duties and powers:

- to review and evaluate the qualifications, performance and independence of the lead partner of the external auditors;
- to select and recommend the external auditors to be appointed by the board of directors and to recommend the removal or replacement of the external auditors;
- to review in consultation with the head of the internal auditing organization and the chief financial officer the fees charged by the external auditors for audit and non-audit services;
- to approve all audit engagement fees and terms, as well as all significant non-audit engagements with the external auditors;
- to ensure that the external auditors prepare and deliver annually the statement as to independence and auditors' statement, 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 our external auditors and to take appropriate action in response to such statements to satisfy itself of the external auditor's independence;
- to ensure that the lead partner of the external auditors is rotated at least once every five (5) years;

- to instruct the external auditors that they are ultimately accountable to the board of directors through the audit committee; 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.

Our board of directors intends to amend the audit committee charter at its next board meeting to conform the audit committee charter to Article XI of our By-Laws, as amended on June 28, 2005.

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, 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 Mr. Rene G. Bañez are the non-voting members.

The principal functions and responsibilities of our Governance and Nomination Committee are:

1. To review and evaluate the qualifications of the persons nominated for election as directors (including independent directors) or other positions requiring Board appointment;
2. 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
3. To provide an assessment on our Board's effectiveness in the process of replacing or appointing new directors or members of the Board Committees.

Executive Compensation Committee

Our executive compensation committee is composed of six members, five of whom are regular members of our board of directors. Three of these six 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. Tsuyoshi Kawashima and Mr. Albert F. del Rosario, who is chairman of the executive compensation committee, and Mr. Victorico P. Vargas as a non-voting member.

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.

Finance Committee

Our finance committee is composed of five members, three of whom are regular members of our board of directors. Ms. Corazon S. de la Paz, who chairs the committee, Mr. Antonio O. Cojuangco, who resigned effective January 7, 2007, and Mr. Alfred V. Ty are regular members of our board of directors. Mr. Christopher H. Young, our chief financial advisor and Mr. Amado S. Bagatsing comprise the fourth and fifth members. Mr. Tatsu Kono and Mr. Tsuyoshi Kawashima, who are non-independent members of our board of directors, serve as advisors to the committee.

The principal function of our finance committee is to consider and approve our loans, funding and financing requirements involving amounts of US$3 million or above but less than US$5 million.

Item 10. Executive Compensation and Stock Option Plan

Executive Compensation

The following table is the list of the chief executive officer, key officers and directors of the Company, as a group, as of February 28, 2007:

Name	Position(s)
Manuel V. Pangilinan	Director, Chairman of the Board
Napoleon L. Nazareno	Director, President and Chief Executive Officer
Helen Y. Dee	Director
Albert F. del Rosario	Director
Corazon S. de la Paz	Director
Ray C. Espinosa	Director
Rev. Fr. Bienvenido F. Nebres, S.J.	Independent Director
Alfred V. Ty	Independent Director
Oscar S. Reyes	Independent Director
Pedro E. Roxas	Independent Director
Tatsu Kono(1)	Director
Tsuyoshi Kawashima(2)	Director
Ma. Lourdes C. Rausa-Chan(3)	Director, Senior Vice President and Corporate Secretary
Anabelle L. Chua	Senior Vice President and Treasurer
Rene G. Bañez	Senior Vice President, Chief Governance Officer
George N. Lim	Senior Vice President, PLDT Network Services Head
Claro Carmelo P. Ramirez	Senior Vice President, PLDT International and Carrier Business Head
Victorico P. Vargas	Senior Vice President, PLDT Human Resources Management Head
Rosalie R. Montenegro	Senior Vice President, PLDT Call Center Business Head
Alfredo S. Panlilio	Senior Vice President, PLDT Global Corp. Head
Ernesto R. Alberto	Senior Vice President, PLDT Corporate Business Head
Menardo G. Jimenez Jr.	Senior Vice President, PLDT Retail Business Head
Jun R. Florencio	Senior Vice President, Internal Audit and Fraud Risk Management Head
June Cheryl C. Furigay	Vice President, Financial Reporting and Control Head

(1) Mr. Tatsu Kono replaced Mr. Haruhiko Yamada as director who resigned effective March 24, 2006.
(2) Mr. Tsuyoshi Kawashima replaced Mr. Shigeru Yoshida as director who resigned effective July 11, 2006.
(3) Atty. Ma. Lourdes C. Rausa-Chan replaced Mr. Antonio O. Cojuangco as director who resigned effective January 7, 2007.

The following table is the breakdown of the aggregate amount of compensation paid to our chief executive officer and key officers in 2005 and 2006, and estimated to be paid in 2007, to the chief executive officer and key officers named above:

	Years Ended December 31,		
	2005	2006	2007
	(Actual)		(Estimate)
(in millions)			
Salaries(1)	Php102	Php123	Php138
Bonuses(2)	25	31	39
Other compensation(3)	87	109	606
	Php214	Php263	Php783

(1) Basic monthly salary.
(2) Includes longevity pay, mid-year bonus, 13th month pay and Christmas bonus.
(3) Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both individual and group/team performance and is tied to the achievement of Corporate, Unit and Customer Satisfaction Objectives. It covers regular officers and executives of the Company and is based on a percentage of their Guaranteed Annual Cash Compensation. Also includes Long Term Incentive Plan, or LTIP, pay-out in 2007.

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. In addition, each of the members or advisors of the audit, executive compensation, governance and nomination, and finance committees is entitled to a fee in the amount of Php50,000 for each committee meeting attended.

There are no agreements between PLDT and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under PLDT's retirement plan.

The following table sets out the aggregate amount of compensation paid in 2005 and 2006 and the estimated amount of compensation to be paid in 2007 to our chief executive officer, key officers, all other officers and directors of the Company, as a group:

	2005	2006	2007
	(Actual)		(Estimate)
(in millions)			
Salaries(1)	Php179	Php212	Php242
Bonuses(2)	44	54	71
Other Compensation(3)	171	213	1,248
	Php394	Php479	Php1,561

(1) Basic monthly salary.
(2) Includes longevity pay, mid-year bonus, 13th month pay and Christmas bonus.
(3) Includes variable pay and other payments. Variable pay is based on an annual incentive system that encourages and rewards both individual and group/team performance and is tied to the achievement of Corporate, Unit and Customer Satisfaction Objectives. It covers regular officers and executives of the Company and is based on a percentage of their Guaranteed Annual Cash Compensation. Also includes LTIP pay-out in 2007.

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 at 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.

The total number of shares of common stock allocated for options granted to the chief executive officer and key officers of PLDT named below, as a group, under the executive stock option plan as of February 28, 2007 was 222,948.

Name	Grant Shares	Position(s)
Manuel V. Pangilinan	97,571	Chairman of the Board
Napoleon L. Nazareno	–	President and Chief Executive Officer
Ma. Lourdes C. Rausa-Chan	22,302	Corporate Secretary and Senior Vice President, Corporate and Legal Affairs Head
Rene G. Bañez	–	Senior Vice President and Chief Governance Officer
Anabelle L. Chua	13,738	Treasurer and Senior Vice President, Corporate Finance and Treasury Head
George N. Lim	13,256	Senior Vice President, Network Services Head
Claro Carmelo P. Ramirez	14,496	Senior Vice President, International and Carrier Business Head
Victorico P. Vargas	23,835	Senior Vice President, Human and Infrastructure Resources Management Head
Rosalie R. Montenegro	16,006	Senior Vice President, Call Center Business Head
Alfredo S. Panlilio	11,151	Senior Vice President, PLDT Global Corp. President
Ernesto R. Alberto	–	Senior Vice President, Corporate Business Head
Menardo G. Jimenez, Jr.	–	Senior Vice President, Retail Business Head
Jun R. Florencio	10,593	Senior Vice President, Internal Audit and Fraud Risk Management Head
June Cheryl C. Furigay	–	Vice President, Financial Reporting and Control Head

The total number of shares of common stock allocated for options granted to the chief executive officer, key officers and all other officers of PLDT, as a group, under the executive stock option plan as of February 28, 2007 was 416,089.

Except for options granted to the officers as disclosed above, there are no other warrants or options held by PLDT's officers or directors either singly or collectively.

Long-Term Incentive Plan

On August 3, 2004, the Board of Directors approved the establishment of a Long Term Incentive Plan, or LTIP, covering a four-year period of performance commencing on January 1, 2004 and ending on December 31, 2007, or the Performance Cycle.

The 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.

Payment of awards under the LTIP is contingent upon the achievement of the PLDT common share price target and cumulative consolidated net profit target of the PLDT Group by the end of the Performance Cycle, as approved by the Board of Directors.

If the share price and profit objectives are met, the cost of the LTIP, before taxation, for the four-year Performance Cycle will be approximately Php3.6 billion, which amount will represent less than 3% of the cumulative consolidated net profit target for the Performance Cycle.

The 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.

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, upon endorsement to the Executive Compensation Committee, was approved by the Board to cover the 2007-2009 plan. As a result of the establishment of the new LTIP, the Board also approved the early vesting of the current LTIP by the end of 2006.

Item 11. Security Ownership of Certain Beneficial Owners, Directors and Officers

Security Ownership of Certain Beneficial Owners

The following are the owners of record of more than 5% of PLDT's common stock, the number of shares held and the percentage of shareholding of each of them as of February 28, 2007. All shares of PLDT's common stock have one vote per share.

Name of Beneficial Owner	Name and Address of Record Owner and Relationship with Issuer	Citizenship	Title of Class	Number of Shares Held(1)	% of Class
First Pacific[3] 24/F Two Exchange Square 8 Connaught Place, Central, Hong Kong	Philippine Telecommunications Investment Corp.[1] 12/F Ramon Cojuangco Building, Makati Avenue, Makati City	Philippine Corporation	Common	26,034,263	13.81
	Metro Pacific Resources, Inc.[2] c/o Corporate Secretary 18th Floor Liberty Center 104 H.V. Dela Costa St. Salcedo Village, Makati City	Philippine Corporation	Common	17,112,534	9.08
PCD Nominee Corporation[4] 37/F Enterprise Bldg, Tower 1 Ayala Ave., cor Paseo de Roxas St. Makati City	See Footnote 4 below	Philippine Corporation	Common	72,278,557	38.33
NTT Communications[5] 1-1-6 Uchisaiwai-Cho I-Chome, Chiyoda-ku Tokyo 100-8019, Japan	Same as Record Owner	Japanese Corporation	Common	12,633,487	6.70
NTT DoCoMo, Inc.[6] 41st Floor, Sanno Park Tower 2-11-1 Nagata-cho Chiyoda-ku, Tokyo 100-6150 Japan	Same as Record Owner	Japanese Corporation	Common	12,633,486	6.70
J. P. Morgan Asset Holdings (HK) Limited[7] 20/F Chater House 8 Connaught Road, Central, Hong Kong	See Footnote 7 below	HongKong Corporation	Common	36,901,643	19.57

Social Security System[8] SSS Building, East Avenue, Diliman, Quezon City	Same as Record Owner	Philippine Corporation	Common	12,125,009	6.43

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(1) Pursuant to a resolution adopted by the Board of Directors of Philippine Telecommunications Investment Corporation, or PTIC, a copy of which had been furnished to PLDT, 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.

(2) Based on the resolutions of the Board of Directors of Metro Pacific Resources, Inc., or MPRI, copies of which had been furnished to PLDT, 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 in the Annual Meeting.

(3) First Pacific completed the acquisition of additional 46% interest in PTIC on February 28, 2007, bringing its total economic interest in PLDT to 28.67% based on the PLDT common shareholdings of the intermediate holding companies PTIC, MPRI, Larouge B.V. (which holds 4,711,949 shares of PLDT common stock lodged with the Philippine Depository and Trust Co., or PDTC,) Semilion Enterprises, Inc. (which holds ADRs evidencing ADSs representing 4,152,236 shares of PLDT common stock) and First Pacific Telecom Assets Limited BVBA (which holds ADRs evidending ADSs representing 2,048,667 shares of PLDT common stock).

(4) 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 shall 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 the information provided by PDTC to PLDT, none of the owners of the PLDT common shares registered under the name of PCD Nominee Corporation, or PCD, owns more than 5% of PLDT's outstanding common stock as at February 28, 2007, except The Hongkong and Shanghai Banking Corp. Ltd.–Clients and Standard Chartered Bank which own approximately 21.58% and 6%, respectively, of PLDT's outstanding common stock as at February 28, 2007. The Company has no knowledge if any beneficial owner of the shares under The Hongkong and Shanghai Banking Corp. Ltd.–Clients and Standard Chartered Bank accounts own more than 5% of PLDT's outstanding common stock as at February 28, 2007.

PCD account also includes 7,100,220 shares beneficially owned by the Social Security System, 4,711,949 shares beneficially owned by Larouge B.V., and 11,938,750 shares beneficially owned by Capital Research and Management Company. Please refer to footnotes 3 and 7.

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

(6) DoCoMo completed the acquisition of 12,633,486 shares of PLDT common stock from NTT Communications on March 14, 2006. Based on available information, DoCoMo is a majority-owned and publicly traded subsidiary of Nippon Telegraph and Telephone Corporation. Based on a certification signed by a duly authorized officer of NTT DoCoMo, a copy of which had been furnished to PLDT, Mr. Toshinari Kunieda or Mr. Matsuo Yamamoto, is authorized to execute for and on behalf of DoCoMo, endorsements, transfers and other matters relating to the PLDT shares of common stock held by DoCoMo.

(7) 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 ADRs, evidencing 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. Please refer to footnote 3.

This account also includes 4,152,236 shares of common stock underlying the ADS owned by Semillion Enterprises, Inc., and 2,636,940 shares of common stock underlying ADSs owned by Capital Research and Management Company. Please refer to footnote 4.

(8) Social Security System, or SSS, is the record owner of 5,024,789 shares and is the beneficial owner of 7,100,220 shares held of record by PCD Nominee Corporation. Pursuant to a resolution of the Board of Directors of the SSS a copy of which had been furnished to PLDT, Ms. Corazon S. de la Paz, as President and Chief Executive Officer of the SSS, has been authorized to represent and vote the PLDT shares of common stock of SSS.

As of February 28, 2007, 87.97% of the outstanding common stock of PLDT was registered in the names of Philippine persons.

Security Ownership of Directors and Officers

The following are the number of common and preferred shares owned of record by the directors, the Chief Executive Officer and other key officers of PLDT as of February 28, 2007:

Name of Record	Citizenship	Title of Class	Options[1]	Number of Shares	Amount of Holdings (Based on Par Value)	Percentage of Class
Manuel V. Pangilinan Chairman of the Board 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	217,350 360	Php1,086,750 3,600	0.115265 0.000051
Napoleon L. Nazareno President and Chief Executive Officer 26/F Smart Tower, Ayala Avenue, Makati City	Filipino	Common Preferred	–	6,427 495	32,135 4,950	0.003408 0.000070
Helen Y. Dee Director 3/F Grepalife Bldg. Sen. Gil Puyat Ave., Makati City	Filipino	Common Preferred	–	98 180	490 1,800	0.000052 0.000025
Ray C. Espinosa Director 5/F Locsin Bldg., Ayala Avenue cor. Makati Avenue, Makati City	Filipino	Common Preferred	13,042	1 –	5 –	0.000001 –
Tsuyoshi Kawashima Director 11/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Japanese	Common Preferred	–	10 –	50 –	0.000005 –
Tatsu Kono Director 6/F Ramon Cojuangco Bldg. Makati Avenue, Makati City	Japanese	Common Preferred	–	100 –	500 –	0.000053 –
Fr. Bienvenido F. Nebres, S.J. Independent Director Ateneo de Manila University 2/F Xavier Hall, Loyola Heights, QC	Filipino	Common Preferred	–	2 –	10 –	0.000001 –
Corazon S. de la Paz Director 6/F SSS Bldg., East Avenue, Diliman, QC	Filipino	Common Preferred	–	1 –	5 –	0.000001 –
Oscar S. Reyes 14/F Shell House 156 Valero St., Salcedo Village Makati City	Filipino	Common Preferred	–	1 360	5 3,600	0.000001 0.000051
Albert F. del Rosario Director 15/F Chatham House, Valero St., cor. Herrera St., Makati City	Filipino	Common Preferred	–	100,025 1,560	500,125 15,600	0.053045 0.000221
Pedro E. Roxas Independent Director 7/F Cacho-Gonzales Bldg., 101 Aguirre St., Legaspi Village Makati City	Filipino	Common Preferred	–	1 540	5 5,400	0.000001 0.000076

Name of Record	Citizenship	Title of Class	Options[1]	Number of Shares	Amount of Holdings (Based on Par Value)	Percentage of Class
Alfred V. Ty Independent Director 7/F Metrobank Plaza Sen. Gil J. Puyat Avenue, Makati City	Filipino	Common Preferred	–	1 –	5 –	0.000001 –
Ma. Lourdes C. Rausa-Chan Corporate Secretary and Senior Vice President, Corporate Affairs and Legal Services Head 9/F MGO, Legaspi St., Makati City	Filipino	Common Preferred	1,902	39 350	195 3,500	0.000021 0.000050
Anabelle L. Chua Treasurer and Senior Vice President, Corporate Finance and Treasury Head Smart Chief Financial Officer 26/F Smart Tower I Ayala Avenue, Makati City	Filipino	Common Preferred	6,438	4,820 –	24,100 –	0.002556 –
Rene G. Bañez Senior Vice President and Chief Governance Officer 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	– 540	– 5,400	– 0.000076
George N. Lim Senior Vice President, Network Services Head 15/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	5,256 360	26,280 3,600	0.002787 0.000051
Claro Carmelo P. Ramirez Senior Vice President, Consumer Affairs Head 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	11,500 –	57,500 –	0.006099 –
Victorico P. Vargas Senior Vice President, Human Resources Head 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	2,878	– 180	– 1,800	– 0.000025
Rosalie R. Montenegro Senior Vice President, Call Center Business Head 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	– –	– –	– –
Alfredo S. Panlilio Senior Vice President, PLDT Global Corporation President 7/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	– –	– –	– –
Ernesto R. Alberto Senior Vice President, Corporate Business Head 7/F Ramon Cojuangco Bldg.,	Filipino	Common Preferred	–	– –	– –	– –

Name of Record	Citizenship	Title of Class	Options[1]	Number of Shares	Amount of Holdings (Based on Par Value)	Percentage of Class
Makati Avenue, Makati City						
Menardo G. Jimenez, Jr. Senior Vice President, Retail Business Head 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	22 –	110 –	0.000012 –
Jun R. Florencio Senior Vice President, Internal Audit and Fraud Risk Management Head 6/F MGO, Legaspi St., Makati City	Filipino	Common Preferred	–	15 530	75 5,300	0.000008 0.000075
Celso T. Dimarucut[2] First Vice President, Financial Reporting and Control Head 11/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	6,018	2,000 460	10,000 4,600	0.001061 0.000065
June Cheryl C. Furigay Vice President Financial Reporting and Control 11/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	– –	– –	– –
Florentino D. Mabasa, Jr. First Vice President and Assistant Corporate Secretary 10/F PLDT Tower I Ayala Avenue, Makati City	Filipino	Common Preferred	–	– –	– –	– –
Eriberto B. Gesalta First Vice President 10/F MGO, Legaspi St., Makati City	Filipino	Common Preferred	–	– 180	– 1,800	– 0.000025
Ramon B. Rivera, Jr. First Vice President 10/F MGO, Legaspi St., Makati City	Filipino	Common Preferred	6,817	– –	– –	– –
Emiliano R. Tanchico, Jr. First Vice President 4/F PLDT Dansalan Mandaluyong City	Filipino	Common Preferred	–	– –	– –	– –
Ricardo M. Sison First Vice President 5/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	5,000	– 180	– 1,800	– 0.000025
Miguela F. Villanueva First Vice President 5/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	– –	– –	– –
Cesar M. Enriquez First Vice President	Filipino	Common Preferred	–	– –	– –	– –

Name of Record	Citizenship	Title of Class	Options[1]	Number of Shares	Amount of Holdings (Based on Par Value)	Percentage of Class
6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City						
Raymond S. Relucio First Vice President 10/F MGO, Legaspi St., Makati City	Filipino	Common Preferred	–	2,552 –	12,760 –	0.001353 –
Richard N. Ferrer First Vice President 6/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	–	– 180	– 1,800	– 0.000025
Nerissa S. Ramos First Vice President 5/F Ramon Cojuangco Bldg., Makati Avenue, Makati City	Filipino	Common Preferred	1,588	– –	– –	– –
Ramon Alger P. Obias First Vice President 9/F MGO, Legaspi St. Makati City	Filipino	Common Preferred	–	1,531 –	7,655 –	0.000812 –
Alfredo B. Carrera First Vice President 9/F MGO, Legaspi St., Makati City	Filipino	Common Preferred	–	300 –	1,500 –	0.000159 –

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(1) Shares of common stock underlying fully vested options exercisable at any time until December 9, 2009.
(2) Seconded to ePLDT as Chief Finance Officer effective November 16, 2006 and was replaced by Ms. June Cheryl C. Furigay as Financial Reporting and Control Head.

The aggregate number of common and preferred shares owned directly by all key officers and directors as a group as at February 28, 2007 were 352,052 and 6,455, respectively, or 0.186700% and 0.000913% of PLDT's outstanding common and preferred shares, respectively.

Change in Control

There has been no change in control in respect of PLDT since the beginning of 2003. We are not aware of any existing or pending transaction which may result in such a change of control.

On January 31, 2006, DoCoMo agreed to acquire from NTT Communications 12.6 million common shares of PLDT, representing 7% of PLDT's outstanding common shares held by NTT Communications, for a consideration equivalent to approximately US$440 million. The consideration was determined based on the 30-day weighted average price of PLDT's common stock of Php1,825. NTT Communications will retain 12.6 million shares of PLDT with a similar 7% equity shareholding. In connection with DoCoMo's aforementioned acquisition of PLDT shares, PLDT, First Pacific and certain of its affiliates, or the FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement dated January 31, 2006, under which the parties agreed to amend, and grant DoCoMo certain benefits under, the Stock Purchase and Strategic Investment Agreement dated September 28, 1999 (as amended), among PLDT, the FP Parties and NTT Communications, the Shareholders' Agreement dated March 24, 2000 between the FP Parties and NTT Communications, the Advisory Services Agreement dated March 24, 2000 (as amended) and the Registration Rights Agreement dated March 24, 2000 between PLDT and NTT Communications. DoCoMo and NTT

Communications have also agreed certain procedures relating to the exercise and sharing of the benefits of certain rights under the aforestated agreements. In addition, PLDT and DoCoMo agreed to certain strategic business relationships in the field of mobile communications services which, among other things, will enable Smart to offer DoCoMo's i-mode mobile Internet service exclusively to Smart's subscribers and to collaborate with DoCoMo in the development and roll-out of Smart's 3G networks using W-CDMA standard.

Item 12. Certain Relationships and Related Party Transactions

Related Party Transactions

Cooperation Agreement with First Pacific and certain affiliates, or FP Parties, NTT Communications and DoCoMo

In connection with the transfer by NTT Communications Corporation, or NTT Communications, of approximately 12.6 million shares of PLDT's common stock to NTT DoCoMo, Inc, or DoCoMo, pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and DoCoMo, the FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and

- rights relating to the representation on the board of directors of PLDT and Smart, respectively, and any committees thereof.

Key provisions of the Cooperation Agreement pertain to, among other things, restrictions on the ownership of shares of PLDT by NTT Communications and DoCoMo, competition, business cooperation, additional rights of DoCoMo, change in control and termination. See *Note 20 – Related Party Transactions* to the accompanying audited consolidated financial statements for further details.

Integrated i-mode Services Package Agreement between DoCoMo and Smart – An Integrated i-mode Service Package Agreement was entered into by Smart and DoCoMo on February 15, 2006, under which DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode service package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. The initial license fee paid as at December 31, 2006 amounted to Php53 million.

Advisory Services Agreement between DoCoMo and PLDT — An Advisory Services Agreement was entered into by DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement between PLDT and DoCoMo. Pursuant to the agreement, DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, the agreement governs the terms and conditions of the appointments and the corresponding fees related thereto. The initial license fee paid as at December 31, 2006 amounted to Php12 million. Outstanding liability under this agreement amounted to Php32 million as at December 31, 2006.

- *Other Agreements with NTT Communications and/or its Affiliates* — Under certain agreements, (1) NTT Communications provides advisory services for various business areas of PLDT; (2) PLDT is licensed to market managed data and other services using NTT Communications'

Arcstar brand; and (3) PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services. Total fees under these agreements totaled Php184 million and Php256 million for the years ended December 31, 2006 and 2005, respectively. PLDT's outstanding obligations under these agreements amounted to Php18 million and Php23 million as at December 31, 2006 and 2005, respectively.

- *Agreements between Smart and Asia Link B.V.* — Under certain agreements, ALBV undertakes to provide technical support services and assistance in the operations and maintenance of Smart's cellular business. Total fees under these agreements totaled Php591 million and Php567 million for the years ended December 31, 2006 and 2005, respectively. Outstanding obligations of Smart under these agreements amounted to Php128 million and Php194 million as at December 31, 2006 and 2005, respectively. ALBV is a subsidiary of the First Pacific Group.

- *Agreements relating to insurance companies* — Gotuaco del Rosario and Associates, or Gotuaco, acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses paid under these agreements amounted to Php360 million and Php468 million for the years ended December 31, 2006 and 2005, respectively. Two directors of PLDT have a direct/indirect interest in or serve as a director/officer of Gotuaco and Malayan.

For a more detailed discussion of the related party transactions enumerated above, see *Note 20 –Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7.

Other Transactions

Until April 2006, Smart was subject to loan covenants that restrict its ability to pay dividends, redeem preferred shares, make distributions to PLDT or otherwise provide funds to PLDT or any associate without the consent of its lenders. Smart was able to obtain waivers from Finnvera and certain of its lenders for each of the dividend payments made by Smart to PLDT in March 2006, 2005, 2004, 2003 and 2002 aggregating Php7,000 million, Php19,717 million, Php16,100 million, Php6,166 million and Php1,540 million, respectively. In 2005, Smart redeemed 380.8 million preferred shares previously issued to PLDT at a redemption price of Php13.875 per share, or a total redemption price aggregating to Php5,283 million.

Payments made by Smart to PLDT after April 2006 did not require prior creditor consent as all loan facilities that contain such restrictions have already been repaid. In March 2007, June 2006 and September 2006, dividend payments received from Smart amounted to Php8,000 million, Php7,000 million and Php6,600 million, respectively. In addition, Smart redeemed 392 million preferred shares at a total redemption price of Php5,441 million in June 2006.

Except for the transactions described above and the related party transactions discussed in *Note 20 – Related Party Transactions* to the accompanying audited consolidated financial statements in Item 7, there were no other material transactions during the last two years, nor there are any material transactions currently proposed, to which PLDT was or is to be a party, in which a director or key officer or owner of more than 10% of the common shares of PLDT, or any member of the immediate family of a director or key officer or owner of more than 10% of the common shares of PLDT had or is to have a direct or indirect material interest. In the ordinary course of business, PLDT has transactions with other companies in which some of such persons may have an interest.

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, 2006 through December 31, 2006.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

In keeping with our mission/vision to be the preferred full-service provider of voice, video and data at the most attractive levels of price, service quality, content and coverage, thereby bringing maximum benefit to the company's stakeholders, we continue to be committed to good corporate governance by continuing to adopt global best practices in corporate governance, which are in compliance with, and on certain matters, even exceed, the local, Hong Kong and U.S. regulatory mandates.

From 2002 to 2006, we have progressively adopted corporate governance rules to serve as a strong foundation for our adherence to good governance. In 2002, our Manual on Corporate Governance (the "Manual") was adopted, and subsequently reviewed and amended in 2007. In 2004, the Code of Business Conduct and Ethics (the "Code") was approved by our Board of Directors (the "Board"), and also reviewed and amended in 2006. We have also adopted a more extensive Conflict of Interest Policy ("COI Policy") in 2005. On January 31, 2006, the Board approved a Policy on Gifts, Entertainment and Sponsored Travel and the Supplier/Contractor Relations Policy. Finally, on May 9, 2006, the Board approved the Expanded Whistleblowing Policy (EWB) or the Administrative Order on the Handling of Employee Disclosures and Complaints regarding violations of the Corporate Governance Rules, Questionable Accounting or Auditing Matters, and Offenses covered by the Company's Table of Penalties. In addition, on the same date, the Board adopted an Administrative Order creating the structures and rules on Officer Discipline. All these policies and rules (collectively, the Corporate Governance (CG) Rules) comply with the requirements of the Philippine and U.S. Securities and Exchange Commissions (SEC), New York Stock Exchange and Hong Kong Stock Exchange Corporate Governance Rules, as may be applicable. From 2005 to 2006, our subsidiaries have also adopted corporate governance rules and policies substantially similar in substance and form to our CG Rules, as well as appointed their respective Corporate Governance Officers.

Likewise, consistent with the globally accepted best practices, we have sustained our Board's independence from Management through the separation of the posts of the Board Chairman and President/CEO. Each position has distinct and separate duties and responsibilities as contained in our By-Laws and the Manual. In addition, we have four (4) independent directors, which is twice the number required by the Philippine SEC. The four (4) duly elected independent directors are Fr. Bienvenido F. Nebres, S.J., Mr. Pedro E. Roxas, Mr. Alfred V. Ty, and Mr. Oscar S. Reyes.

Further, to assist the Board in efficiently fulfilling its duties and functions and comply with the principles of good governance, the Board has five (5) committees, namely, the Advisory Committee, Audit Committee, Governance and Nomination Committee, Executive Compensation Committee, and Finance Committee. The Audit, Governance and Nomination, and Executive Compensation Committees are mandated by local and U.S. regulations and each Committee has its own governing Charter. More importantly, early in 2006, the Board approved, adopted and conducted its first annual performance evaluation process to ensure that the Board, its committees and its members are functioning effectively.

Our Chief Governance Officer, who heads the Corporate Governance Office and reports functionally to the Chairman of the Board through the Governance and Nomination Committee, and further serves as the Compliance Officer, submitted our annual certification with the Philippine SEC and Philippine Stock Exchange on January 27 and 30, 2006, respectively, confirming that:

1. Compliance with SEC Memorandum Circular No. 2 dated April 05, 2002, as well as all relevant Circulars on Corporate Governance, has been monitored;

2. PLDT, its directors, officers and employees complied with all the leading practices and principles on good corporate governance as embodied in the Manual;

3. PLDT also complied with its appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance with the Manual;

4. PLDT committed no major deviations from the provisions of the Manual; and

5. A copy of the Manual had been furnished to the directors, officers, executives and employees.

Said certification is based on the Annual Evaluation conducted by the President/CEO, Treasurer and Chief Finance Officer and Chief Governance Officer of the Company's compliance with its Manual for 2006, which was also submitted to the Philippine SEC and PSE on the said dates.

Further, as part of the Company's Sarbanes-Oxley Act Section 404 Compliance Project, PLDT, as a foreign private issuer, has continued to ensure that its internal controls will support the annual internal control report on management's assessment of internal controls that must be certified by the chief executive officer and the chief finance officer for the year 2006, and every year thereafter.

Similarly, starting 2006, the annual evaluation of the effectiveness of our internal control and risk management systems was done in compliance to Hong Kong Stock Exchange requirements, where our parent company First Pacific Company Limited, is listed.

The CG website, which is available not only to PLDT employees but also to the Company's external and internal stakeholders, was enhanced in order to restructure existing content and adding of new content. The CG website was improved to make it more user friendly, and thus, encourage employees and other stakeholders to view the site. Indeed, viewership statistics have significantly improved in the period after the enhancement. The initial series of corporate governance trainings were also completed company-wide in the third quarter of 2006.

In order that PLDT moves beyond mere compliance to corporate governance-related laws and rules, PLDT has become the first Philippine company to be a member of the largest international group of corporate ethics and compliance officers, where our Chief Governance Officer was elected as one of the directors of the association, with his term starting in 2007.

The Corporate Governance framework of PLDT involves three development phases: Compliance, Competency, and Character/Culture. Now that compliance structures and facilities are in place, the Company is focused on building competencies and commitment among its personnel so that ethical values and practices become embedded and ingrained within the Company. The end-view is the emergence of a strong ethical corporate character distinctly PLDT.

Audit Committee Report for 2006

Further to our compliance with applicable corporate governance laws and rules, our Audit Committee confirmed in its report for 2006 that:

- Each voting member of the Audit Committee is an independent director as determined by the Board of Directors;

- In the performance of their oversight responsibilities, the Audit Committee has reviewed and discussed our audited financial statements as of and for the year ended December 31, 2006 with management, which has the primary responsibility for the financial statements, and with SGV & Co., our independent auditor, who is responsible for expressing an opinion on the conformity of our audited financial statements with generally accepted accounting principles;

- The Audit Committee has discussed with SGV & Co. the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;

- The Audit Committee has received written disclosures and the letter from SGV & Co. required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with SGV & Co. its independence from the PLDT Group and the PLDT Group's management;

- The Audit Committee likewise discussed with our internal audit group and SGV & Co. the overall scope and plans for their respective audits. The Audit Committee also met with our internal audit group and representatives of SGV & Co. to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting;

- Based on the reviews and discussions referred to above, in reliance on management and SGV & Co. and subject to the limitations of the Audit Committee's role, the Audit Committee recommended to the Board of Directors and the Board has approved, the inclusion of our financial statements as of and for the year ended December 31, 2006 in our Annual Report to the Stockholders and to the Philippine SEC and U.S. SEC on Form 17-A and Form 20-F, respectively; and

- Based on a review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the Audit Committee approved the appointment of SGV & Co. as our independent auditor.

Enterprise Risk Management

In line with our corporate governance initiatives relating to our risk management activities, we have established a group-wide enterprise risk management framework which became effective on April 1, 2006. Under the framework, risks are identified, measured, and responded to in a manner consistent with the best interests of the PLDT Group. The degree of response to risks shall be based on the likelihood of occurrence and the potential financial and operational impact as compared to the cost and potential consequences of the planned response. Identified risks may either be fully or partially assumed, mitigated or addressed. Risk management is not to be construed as an end in itself but rather as an exercise or process aimed to improve the likelihood of attaining our business objectives.

The Enterprise Risk Management Committee, or ERMC, acts as the monitoring body for the individual risk management activities of the different units within the PLDT Group. As the strategic body responsible for developing and managing a comprehensive integrated risk management plan, the ERMC has the responsibility to respond to externally imposed regulatory guidelines concerning risk identifications, disclosure, management, and monitoring. The ERMC is also mandated to advise the appropriate authorities of the PLDT Group on risk concerns pertaining to any of the companies within the PLDT Group.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

Exhibits

The exhibits listed in the accompanying Index to Exhibits on page 141 are filed or incorporated as part of this annual report.

Reports on SEC Form 17-C (Current Reports)

We reported the following items on SEC Form 17-C during the last two quarters of 2006:

	Items Reported	Date Filed
1.	Changes in shareholdings of Mr. Manuel V. Pangilinan	July 3, 2006
2.	SEC Form 18-A of FMR Corporation and Fidelity International Limited, or FIL	July 4, 2006
3.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of news article entitled "MVP may let go of cable tv firm" published in the July 4, 2006 issue of the *Business Mirror*	July 5, 2006
4.	Changes in shareholdings of Mr. George N. Lim	July 5, 2006
5.	Foreign ownership monitoring report as of June 30, 2006	July 5, 2006
6.	Shareholders owning at least one board lot as of June 30, 2006	July 5, 2006
7.	Changes in shareholdings of Ms. Ma. Lourdes C. Rausa-Chan	July 10, 2006
8.	Initial Statement of Beneficial Ownership (SEC Form 23-A) and Statement of Changes in Beneficial Ownership (SEC Form 23-B) of directors and officers as of June 30, 2006	July 10, 2006
9.	Press release entitled "ePLDT completes acquisition of SPi Technologies, Inc.	July 11, 2006
10.	Cash dividend declaration on the Company's Series IV Cumulative Non-Convertible Redeemable Preferred Stock, Series A, I, R, W, AA, BB 10% Cumulative Convertible Preferred Stock	July 11, 2006
11.	Resignation of Mr. Shigeru Yoshida as director and election of Mr. Tsuyoshi Kawashima as director	July 11, 2006
12.	Disclosure letter on ownership of PLDT common shares of Mr. Tsuyoshi Kawashima	July 11, 2006
13.	Appointment of Mr. Tsuyoshi Kawashima as Advisor to the Audit Committee and member of the Executive Compensation Committee	July 11, 2006
14.	Initial Statement of Beneficial Ownership of Mr. Tsuyoshi Kawashima	July 11, 2006
15.	Top 100 stockholders as of June 30, 2006	July 12, 2006
16.	General Information Sheet	July 13, 2006
17.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT sees better Q2 earnings" published in the July 18, 2006 issue of *The Manila Bulletin.*	July 19, 2006
18.	Press release entitled "Moody's upgrades PLDT Local Currency Rating to Baa3; Outlook Positive"	July 19, 2006
19.	Amended SEC Form 23-B of Mr. Mario C. Encarnacion	July 19, 2006
20.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT's currency gain 'more or less' wiped out" published in the July 21, 2006 issue of the *Business Mirror.*	July 21, 2006
21.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT's cellular users up 7.2% in second quarter" published in the July 20, 2006, 2006 issue of the *Business Mirror.*	July 24, 2006
22.	Investor's Briefing on August 8, 2006	July 24, 2006
23.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT's subsidiary acquires 30% stake in Business World" published in the July 27, 2006, 2006 issue of the *Business Mirror.*	July 27, 2006
24.	Foreign ownership monitoring report as of July 31, 2006	August 7, 2006
25.	Shareholders owning at least one board lot as of July 31, 2006	August 7, 2006
26.	Official release of SEC Form 17-Q (MD&A-June 30, 2006)	August 8, 2006
27.	Press release: Financial Statements as of June 30, 2006	August 8, 2006
28.	Cash dividend declaration on the Company's Series B, F, Q, V and Z 10% Cumulative Convertible Preferred Stock	August 8, 2006
29.	Statement of changes in beneficial ownership of directors and officers as of July 30, 2006	August 9, 2006
30.	Amended SEC Form 23-A of Mr. Ernesto R. Alberto	August 9, 2006
31.	Press release entitled "SPi, subsidiary of ePLDT, acquires 100% of CyMed, Inc."	August 11, 2006

	Items Reported	Date Filed
32.	Changes in shareholdings of Mr. Emmanuel B. Ocumen	August 11, 2006
33.	Changes in shareholdings of Mr. Mario C. Encarcacion	August 11, 2006
34.	Changes in shareholdings of Mr. Ricardo M. Sison	August 14, 2006
35.	Press release entitled “Fitch upgrades PLDT’s Foreign Currency IDR to BB+”	August 18, 2006
36.	Changes in shareholdings of Mr. Ernesto R. Alberto	August 22, 2004
37.	Changes in shareholdings of Mr. Ricardo M. Sison	August 24, 2006
38.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled “Smart to sell 9.8% stake in ETPI” published in the August 25, 2006 issue of *The Philippine Star*.	August 25, 2006
39.	Cash dividend declaration on the Company’s Series V, VI, VII Convertible Preferred Stock and Series E, K, O and U 10% Cumulative Convertible Preferred Stock	August 28, 2006
40.	PLDT’s strategic plans for 2007-2009 and new LTIP	August 28, 2006
41.	Changes in shareholdings of Mr. Richard N. Ferrer	August 30, 2006
42.	Press release entitled “ACeS goes global with Inmarsat”	September 5, 2006
43.	Foreign ownership monitoring report as of August 31, 2006	September 7, 2006
44.	Shareholders owning at least one board lot as of August 31, 2006	September 7, 2006
45.	Statement of Changes in Beneficial Ownership of officers and directors as of August 31, 2006	September 7, 2006
46.	Changes in shareholdings of Mr. Victorico P. Vargas	September 8, 2006
47.	Changes in shareholdings of Mr. Victorico P. Vargas	September 12, 2006
48.	Changes in shareholdings of Mr. Leo I. Posadas	September 12, 2006
49.	Changes in shareholdings of Mr. Emmanuel B. Ocumen	September 12, 2006
50.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled “PLDT revives offer to acquire Tonyboy’s Dream Satellite” published in the September 12, 2006 issue of *The Philippine Star.*	September 13, 2006
51.	Changes in shareholdings of Mr. Celso T. Dimarucut	September 13, 2006
52.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled “Aliens control PLDT (60% foreign ownership violates Constitution” published in the September 13, 2006 issue of *Malaya.*	September 14, 2006
53.	Changes in shareholdings of Mr. Celso T. Dimarucut	September 14, 2006
54.	Changes in shareholdings of Mr. Ricardo M. Sison	September 14, 2006
55.	Changes in shareholdings of Mr. Victorico P. Vargas	September 14, 2006
56.	Changes in shareholdings of Mr. Celso T. Dimarucut	September 15, 2006
57.	Changes in shareholdings of Mr. George N. Lim	September 18, 2006
58.	Changes in shareholdings of Mr. Celso T. Dimarucut	September 18, 2006
59.	Changes in shareholdings of Mr. Ray C. Espinosa	September 18, 2006
60.	Changes in shareholdings of Ms. Anna Isabel V. Bengzon	September 18, 2006
61.	Changes in shareholdings of Mr. Leo I. Posadas	September 19, 2006
62.	Changes in shareholdings of Mr. Celso T. Dimarucut	September 19, 2006
63.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled “PLDT profit goal on track with forex gain” published in the September 19, 2006 issue of the *Business Mirror.*	September 20, 2006
64.	Changes in shareholdings of Mr. George N. Lim	September 20, 2006
65.	Changes in shareholdings of Mr. Eriberto B. Gesalta	September 20, 2006
66.	Changes in shareholdings of Mr. Manuel V. Pangilinan	September 20, 2006
67.	Changes in shareholdings of Mr. George N. Lim	September 21, 2006
68.	Changes in shareholdings of Mr. George N. Lim	September 21, 2006
69.	Changes in shareholdings of Ms. Anabelle L. Chua	September 22, 2006
70.	Changes in shareholdings of Mr. Eriberto B. Gesalta	September 26, 2006
71.	Changes in shareholdings of Mr. Leo I. Posadas	September 27, 2006
72.	Disclosure letter on ePLDT’s acquisition of additional Philweb shares	October 2, 2006
73.	Cash dividend declaration on the Company’s Series C, D, J, T and X 10% Cumulative Convertible Preferred Stock	October 2, 2006
74.	Changes in shareholdings of Ms. Anabelle L. Chua (amended)	October 3, 2006
75.	Changes in shareholdings of Mr. Emmanuel B. Ocumen	October 5, 2006
76.	Shareholders owning at least one board lot as of September 30, 2006	October 5, 2006
77.	Foreign ownership monitoring report as of September 30, 2006	October 5, 2006
78.	Changes in shareholdings of Ms. Ma. Lourdes C. Rausa-Chan	October 5, 2006
79.	Statement of Changes in Beneficial Ownership of directors and officers as of September 30, 2006	October 9, 2006
80.	Changes in shareholdings of Mr. Manuel V. Pangilinan	October 10, 2006
81.	Top 100 stockholders as of September 30, 2006	October 13, 2006
82.	Reply to a fax letter of the Securities and Exchange Commission requesting	October 16, 2006

	Items Reported	Date Filed
	clarification/confirmation in connection with the news article entitled "Aliens control PLDT" published in the September 13, 2006 issue of *Malaya*	
83.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT says to up dividend payout to 70% in 2007" published in the October 18, 2006 issue of the *Business World.*	October 18, 2006
84.	Changes in shareholdings of Mr. Claro Carmelo P. Ramirez	October 19, 2006
85.	Changes in shareholdings of Mr. Mario C. Encarnacion	October 20, 2006
86.	Changes in shareholdings of Mr. Ramon P. Obias	October 23, 2006
87.	Investor's Briefing (November 7, 2006)	October 25, 2006
88.	Press release issued by Moody's	November 6, 2006
89.	Cash dividend declaration on the Company's Series IV, G, N, P and S 10% Cumulative Convertible Preferred Stock	November 7, 2006
90.	Press release on the Financial Statements as of September 30, 2006	November 7, 2006
91.	Official release of SEC Form 17-Q (MD&A-September 30, 2006)	November 7, 2006
92.	Shareholders owning at least one board lot as of October 31, 2006	November 8, 2006
93.	Foreign ownership monitoring report as of October 31, 2006	November 8, 2006
94.	Statement of Changes in Beneficial Ownership of directors and officers as of October 31, 2006	November 9, 2006
95.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT profit to reach Php110B by '09, MVP says" published in the November 10, 2006 issue of *The Philippine Daily Inquirer.*	November 10, 2006
96.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT profit seen to reach Php35B this year" published in the November 10, 2006 issue of *The Philippine Star* and "PLDT eyes Piltel capital restructuring" published in the November 10, 2006 issue of *The Manila Bulletin.*	November 10, 2006
97.	Changes in shareholdings of Mr. George N. Lim	November 10, 2006
98.	Changes in shareholdings of Mr. Ricardo M. Sison	November 13, 2006
99.	Changes in shareholdings of Mr. Victorico P. Vargas	November 13, 2006
100.	Changes in shareholdings of Mr. Eriberto B. Gesalta	November 16, 2006
101.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "PLDT liable to pay franchise tax" published in the November 17, 2006 issue of *The Business World.*	November 17, 2006
102.	Changes in shareholdings of Mr. Ramon Alger P. Obias	November 22, 2006
103.	Changes in shareholdings of Mr. Jose A. Apelo	November 24, 2006
104.	Changes in shareholdings of Mr. Mario C. Encarnacion	November 27, 2006
105.	Changes in shareholdings of Mr. Alfredo B. Carrera	November 29, 2006
106.	Changes in shareholdings of Mr. Emmanuel B. Ocumen	December 6, 2006
107.	Statement of changes in beneficial ownership of securities of directors and officers as of November 30, 2006	December 8, 2006
108.	Foreign ownership monitoring report as of November 30, 2006	December 8, 2006
109.	Shareholders owning at least one board lot as of November 30, 2006	December 8, 2006
110.	Cash dividend declaration on the Company's Series V and VI Convertible Preferred Stock and Series H, L, M and Y 10% Cumulative Convertible Preferred Stock	December 12, 2006
111.	Amended statement of changes in beneficial ownership of securities of George N. Lim and Victorico P. Vargas	December 13, 2006
112.	Certificate of attendance of PLDT Board of Directors for the year 2006	December 19, 2006
113.	Reply to a fax letter of the Philippine Stock Exchange requesting clarification/confirmation of a news article entitled "First Pac, NTT raising stake in PLDT" published in the December 18, 2006 issue of *The Philippine Daily Inquirer.*	December 18, 2006
114.	PLDT's notice of intent to involuntarily delist its ADS from the NYSE Arca	December 18, 2006
115.	Changes in shareholdings of Mr. Ramon P. Obias	December 28, 2006
116.	Changes in shareholdings of Mr. Ricardo M. Sison	December 28, 2006
117.	Changes in shareholdings of Mr. Ramon Alger P. Obias	December 28, 2006
118.	Changes in shareholdings of Mr. Jun R. Florencio	December 29, 2006
119.	Changes in shareholdings of Ms. Anabelle L. Chua	December 29, 2006

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines, this annual report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on April 13, 2007.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Registrant

By:

NAPOLEON L. NAZARENO
Principal Executive Officer and
Principal Operating Officer

MA. LOURDES C. RAUSA-CHAN
Corporate Secretary

ANABELLE L. CHUA
Principal Financial Officer and
Treasurer

JUNE CHERYL C. FURIGAY
Principal Accounting Officer and
Controller

SUBSCRIBED AND SWORN to before me this 13 th day of April 2007 affiants exhibiting to me their Passports, as follows:

Name	Passport No.	Date of Expiry	Place of Issue
Napoleon L. Nazareno	ZZ133204	March 28, 2010	DFA, Pasay City
Ma. Lourdes C. Rausa-Chan	KK627621	December 10, 2007	DFA, Pasay City
Anabelle L. Chua	KK188249	May 10, 2011	DFA, Pasay City
June Cheryl C. Furigay	KK369631	October 2, 2007	DFA, Pasay City

Notary Public
RUBEN V. TEJADA
Notary Public for the City of Makati
Until December 31, 2008
Appointment No. M 116
Roll of Attorneys No 40957
PTR No. 0267524 - 01/02/07
Lifetime IBP No. 02364 - 05/09/01
9/F MGO Bldg Dela Rosa St.
Legaspi Village Makati City Metro Manila

Doc. No. 079 ;
Page No. 17 ;
Book No. 16 ;
Series of 2007.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

SEC FORM 17-A

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

* These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in PLDT's consolidated financial statements or the notes to consolidated financial statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

SEC FORM 17-A

INDEX TO EXHIBITS

*These exhibits are either not applicable to PLDT or require no answer.
**Previously filed on SEC Form 17-C on February 26, 2003.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

SEC FORM 17-A

EXHIBIT 18 – MAJORITY-OWNED SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership	
			Direct	Indirect
Wireless				
Smart	Philippines	Cellular mobile services	100.0	–
Smart Broadband	Philippines	Internet broadband and distributor	–	100.0
Wolfpac	Philippines	Mobile applications developer and service provider	–	100.0
Piltel	Philippines	Providing cellular and fixed line services	–	92.1
Telesat	Philippines	Satellite communications services	94.4	–
ACeS Philippines	Philippines	Satellite phone services	88.5	11.5
Mabuhay Satellite	Philippines	Satellite communications services	67.0	–
Fixed Line				
ClarkTel	Philippines	Telecommunications services	100.0	–
SubicTel	Philippines	Telecommunications services	100.0	–
PLDT Global	British Virgin Islands	Telecommunications services	100.0	–
SNMI	Philippines	Data and network services	100.0	–
Maratel	Philippines	Telecommunications services	97.5	–
BCC	Philippines	Telecommunications, infrastructure and related value-added services	75.0	–
Information and Communications Technology				
ePLDT, Inc.	Philippines	Information and communications infrastructure for internet-based services, e-commerce, call centers and IT-related services	100.0	–
Vocativ	Philippines	Call center services	–	100.0
Parlance	Philippines	Call center services	–	100.0
Ventus	Philippines	Call center services	–	100.0
SPi and subsidiaries	Philippines	Business process outsourcing, or BPO, services	–	100.0
Infocom	Philippines	Internet services	–	99.6
netGames	Philippines	Publisher of online games	–	80.0
Digital Paradise	Philippines	Internet access services	–	75.0
Level Up!	Philippines	Publisher of online games	–	60.0
Digital Paradise Thailand	Thailand	Internet access services	–	51.0
Airborne Access	Philippines	Wireless internet services	–	51.0

PLDT

April 13, 2007

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

We are responsible for all information and representations contained in the consolidated financial statements of Philippine Long Distance Telephone Company (PLDT) as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006. Our consolidated financial statements were prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on our best estimates and informed judgment with an appropriate consideration to materiality.

In this regard, we maintain a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. We likewise disclose to our Audit Committee and our independent auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect our ability to record, process, and report financial data; (ii) material weaknesses in our internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

Our Board of Directors reviews our financial statements before these statements are approved and submitted to our Stockholders.

SyCip Gorres Velayo & Co., a member practice of the Ernst & Young Global, the independent auditors appointed by our Audit Committee, have audited our consolidated financial statements as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006 in accordance with Philippine Standards on Auditing and expressed their opinion on the fairness of presentation upon completion of such audit, in their report to our Stockholders and our Board of Directors dated April 13, 2007.

MANUEL V. PANGILINAN	NAPOLEON L. NAZARENO	ANABELLE L. CHUA
Chairman of the Board	President and Chief Executive Officer	Senior Vice President and Treasurer

SUBSCRIBED AND SWORN to before me this 16th day of April 2007, affiants exhibiting to me their Passports, as follows:

Name	Passport No.	Date of Expiry	Place of Issue
Manuel V. Pangilinan	ZZ125034	May 28, 2009	DFA, Pasay City
Napoleon L. Nazareno	ZZ133204	March 8, 2010	DFA, Pasay City
Anabelle L. Chua	ZZ188249	May 10, 2011	DFA, Pasay City

Notary Public

RUBEN V. TEJADA
Notary Public for the City of Makati
Until December 31, 2008
Appointment No. M 116
Roll of Attorneys No. 40957
PTR No. 0267524 - 01/02/07
Lifetime IBP No. 02364 - 05/09/01
9/F MGO Bldg Dela Rosa St.
Legaspi Village Makati City Metro Manila

Doc. No. 078;
Page No. 17;
Book No. 16;
Series of 2007.

General Office P.O. Box 2148 Makati City, Philippines

PLD 1

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Long Distance Telephone Company

We have audited the accompanying financial statements of Philippine Long Distance Telephone Company and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006 and 2005, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Long Distance Telephone Company and Subsidiaries as of December 31, 2006 and 2005, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Betty C. Siy-Yap

Betty C. Siy-Yap
Partner
CPA Certificate No. 57794
SEC Accreditation No. 0098-AR-1
Tax Identification No. 102-100-627
PTR No. 0267389, January 2, 2007, Makati City

April 13, 2007

SGV & Co

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

Report of Independent Auditors
on Supplementary Schedules

The Stockholders and the Board of Directors
Philippine Long Distance Telephone Company
Ramon Cojuangco Building
Makati Avenue, Makati City, Philippines

We have audited in accordance with Philippine Financial Reporting Standards, the consolidated financial statements of Philippine Long Distance Telephone Company and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 13, 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's Rule 68.1 and are not part of the basic financial statements. These schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Betty C. Siy-Yap
Partner
CPA Certificate No. 57794
SEC Accreditation No. 0098-AR-1
Tax Identification No. 102-100-627
PTR No. 0267389, January 2, 2007, Makati City

April 13, 2007

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Schedule C. Non-current Marketable Equity Securities, Other Long-term Investments and Other Investments
December 31, 2006

	BEGINNING BALANCE		ADDITIONS		DEDUCTIONS		ENDING BALANCE		Dividends Received/Accrued from Investments Not Accounted for by the Equity Method
Name of Issuing Entity and Description of Investment	Number of Shares	Amount in Pesos	Equity in Earnings (Losses) of Investees for the Period	Others	Impairment Charge	Others	Number of Shares	Amount in Pesos*	
Investment in shares of stock:									
ePDS		Php14,741,778	Php8,280,032	Php–	–	Php–	–	Php23,021,810	Php–
Philweb		–	(99,385,715)	712,531,801	–	–	–	613,146,086	–
Others		–	38,979,455	–	–	(38,586,525)	–	392,930	–
		Php14,741,778	Php52,126,228	Php712,531,801	–	(Php38,586,525)	–	Php636,560,826	Php–

* See *Note 9 – Investments in Associates* to the accompanying audited financial statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Schedule E. Goodwill and Intangible Assets
December 31, 2006

Description	Beginning Balance	Additions At Cost	Charged to Cost and Expenses*	Charged to Other Accounts	Other Changes Additions (Deductions)	Ending Balance**
Intangible Assets						
Spectrum	Php1,097,573,644	Php–	(Php80,310,266)	Php–	Php–	Php1,017,263,378
Licenses	124,347,222	184,552,000	(78,915,479)	–	–	229,983,743
Technology application	262,784,360	57,466,930	(189,374,512)	(784,684)	–	130,092,094
Customer base	60,311,667	1,298,494,790	(151,318,998)	(69,772,764)	–	1,137,714,695
	1,545,016,893	1,540,513,720	(499,919,255)	(70,557,448)	–	2,515,053,910
Goodwill	1,503,750,088	8,498,080,204	–	((303,097,585)	–	9,698,732,707
	Php3,048,766,981	**Php10,038,593,924**	**(Php499,919,255)**	**(Php373,655,033)**	**Php–**	**Php12,213,786,617**

* *Represents amortization of intangible assets.*
* *See Note 11 –Goodwill and Intangible Assets.*

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Schedule F. Interest-bearing Financial Liabilities
December 31, 2006

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount shown as Current	Amount shown as Long-term
Term Loans			
Kreditanstalt Fur Wiederaufbau F9872 -US$115.970M	Php5,394,287,991	Php1,421,941,282	Php3,972,346,709
GSM Phase 6 – NEXI Facility	1,226,125,000	1,226,125,000	–
Local Banks	1,571,451,525	215,798,000	1,355,653,525
Export-Import Bank of the United States	511,505,299	511,505,299	–
Kreditanstalt Fur Wiederaufbau F9871 - US$32.999M	1,470,007,393	404,610,656	1,065,396,737
Kreditanstalt Fur Wiederaufbau F2783 - US$91.210M	447,340,426	447,340,426	–
Kreditanstalt Fur Wiederaufbau F3057 - US$48.206M	472,852,654	236,426,327	236,426,327
Citibank, N.A. - US$54.203M	396,687,926	246,948,953	149,738,973
Kreditanstalt Fur Wiederaufbau F2953 - US$39.369M	362,288,306	193,083,299	169,205,007
Kreditanstalt Fur Wiederaufbau F3224 - US$25.0M	469,658,014	122,612,500	347,045,514
GSM Phase 7 – Finnish Export Credit PLC (ING Bank)	3,433,150,000	980,900,000	2,452,250,000
Kreditanstalt Fur Wiederaufbau F2949 - US$25.0M	415,218,199	122,612,500	292,605,699
Govco, Inc. - US$40.680M	189,970,340	189,970,340	–
Kreditanstalt Fur Wiederaufbau F2893 - US$21.758M	160,053,453	106,702,302	53,351,151
Kreditanstalt Fur Wiederaufbau F2737 - US$22.586M	110,743,610	110,743,610	–
Kreditanstalt Fur Wiederaufbau F3205 - US$12.606M	185,472,137	61,823,969	123,648,168
Kreditanstalt Fur Wiederaufbau F2818 - US$25.334M	129,293,772	86,189,721	43,104,051
Kreditanstalt Fur Wiederaufbau F2735 - US$20.879M	51,201,509	51,201,509	–
Kreditanstalt Fur Wiederaufbau F8646 - US$9.201M	96,698,039	64,465,729	32,232,310
Kreditanstalt Fur Wiederaufbau F2872 - US$15.529M	68,620,192	45,690,322	22,929,870
Citibank, N.A./Credit Guarantee Facility (CGF) - US$13.6M	46,938,929	29,454,781	17,484,148
Export-Import Bank of the United States - US$15.999M	39,234,519	39,234,519	–
Kreditanstalt Fur Wiederaufbau F2743 - US$10.550M	51,710,879	51,710,879	–
CALYON Corporate and Investment Bank - US$9.313M	63,689,439	42,459,635	21,229,804
2008 Facility - Various Piltel Creditors	141,712,739	–	141,712,739
Kreditanstalt Fur Wiederaufbau F3203 - US$5.522M	24,710,580	24,710,580	–
Credit Lyonnais S.A. Admission Form # 1	23,442,244	23,442,244	–
Total Brought Forward	17,554,065,114	7,057,704,382	10,496,360,732

Name of Issuer and Type of Obligation	Amount Authorized by Indenture	Amount shown as Current	Amount shown as Long-term
Total Brought Forward	Php17,554,065,114	Php7,057,704,382	Php10,496,360,732
Credit Lyonnais S.A. Admission Form # 2	9,500,172	9,500,172	–
Credit Lyonnais S.A. Admission Form # 3	13,599,063	9,066,045	4,533,018
Kreditanstalt Fur Wiederaufbau F3202 - US$0.974M	16,727,393	4,779,140	11,948,253
Bayerische Hypo-und Vereinsbank Aktiengesellschaft – US$1.7M	71,865,948	71,865,948	–
2007 Facility - Various Piltel Creditors	10,980,473	10,980,473	–
Metropolitan Bank and Trust Company	2,500,000,000	277,777,778	2,222,222,222
Nordic Investment Bank	1,471,350,000	294,270,000	1,177,080,000
Other Secured Term Loans	11,111,111	11,111,111	–
Debt Discount and Debt Issuance Cost	(86,112,068)	(37,685,440)	(48,426,628)
Total Term Loans	**21,573,087,206**	**7,709,369,609**	**13,863,717,597**
Fixed Rate Notes			
Deutsche Bank - US$300.0M Notes Due 2017 (8.35%)	14,713,500,000	–	14,713,500,000
*The Bank of New York - US$250.0M Notes Due 2012 (11.375%)	12,261,250,000	–	12,261,250,000
Deutsche Bank - US$200.0M Notes Due 2007 (7.85%)	5,398,285,060	5,398,285,060	–
Deutsche Bank - US$175.0M Notes Due 2009 (10.5%)	8,190,515,000	–	8,190,515,000
*The Bank of New York - US$100.0M Notes Due 2007 (10.625%)	947,058,950	947,058,950	–
The Hongkong and Shanghai Banking Corp. Php1.270B	810,000,000	–	810,000,000
2014A Facility – Metropolitan Bank and Trust Company	6,698,700,509	–	6,698,700,509
2014B Facility – Marubeni Corporation	7,041,100,129	–	7,041,100,129
Finnish Export Credit plc – (ABN AMRO Bank – Facility Agent)	3,060,408,000	1,020,136,000	2,040,272,000
Finnish Export Credit plc – (Standard Chartered – Facility Agent)	2,868,135,191	717,033,797	2,151,101,394
Finnish Export Credit plc – (ABN AMRO Bank – Facility Agent)	2,167,789,000	433,557,800	1,734,231,200
U & J Development Corporation	45,559	45,559	–
Other Fixed Rate Notes	90,475,263	59,404,294	31,070,969
Other Unsecured Term Loans	156,785	144,723	12,062
Unamortized Bond Discount and Debt Issuance Cost	(5,867,495,071)	(100,558,021)	(5,766,937,050)
Total Fixed Rate Notes	**58,379,924,375**	**8,475,108,162**	**49,904,816,213**
Total Long-term Debt	**79,953,011,581**	**16,184,477,771**	**63,768,533,810**
Obligations under Capital Lease	1,029,902,212	923,757,687	106,144,525
Preferred Stock Subject to Mandatory Redemption	1,369,500,229	–	1,369,500,229
Notes Payable	200,532,698	200,532,698	–
Total	**Php82,552,946,720**	**Php17,308,768,156**	**Php65,244,178,564**

* *Formerly JP Morgan Chase Bank*

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY
Schedule I. Capital Stock
December 31, 2006

Title of Issue	Number of Shares Authorized	Number of Shares issued and Outstanding	Number of Shares Reserved For Options, Warrants, Conversion and Other Rights	Number of Shares Held By Related Parties	Directors and Officers*	Others
Preferred Stock (Php10 par value)	822,500,000		–	36,000,000	6,455	–
Cumulative Convertible Series A to EE		406,375,057				
Cumulative Nonconvertible Series IV		36,000,000				
		442,375,057		36,000,000		
Common Stock (Php5 par value)	234,000,000	188,434,695	2,036,928	–	352,052	–

**As disclosed in Item 11. Security Ownership of Certain Beneficial Owners, Directors and Officers — Security Ownership of Directors and Officers.*

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES
Annex A. Aging of Accounts Receivable as of December 31, 2006

Type of Accounts Receivable	Total	Current	31–60 Days	61–90 Days	91 Days and Over
			(In Millions)		
I. Trade Receivables					
1. Retail subscribers	Php7,880,393,944	Php1,043,462,558	Php985,950,091	Php258,455,913	Php5,592,525,382
2. Foreign administrations	6,141,162,712	892,049,514	902,166,246	625,064,059	3,721,882,893
3. Corporate subscribers	8,936,026,249	3,186,585,691	708,052,665	396,586,957	4,644,800,936
4. Domestic carriers	1,398,127,808	393,897,044	94,401,812	73,271,583	836,557,369
5. Dealers, agents and others	993,250,297	453,288,480	25,112,978	11,217,844	503,630,995
Subtotal	Php25,348,961,010	Php5,969,283,287	Php2,715,683,792	Php1,364,596,356	Php15,299,397,575
II. Non-Trade Receivables	1,578,494,768				
Total	26,927,455,778				
Less: allowance for doubtful accounts	16,769,765,318				
Total Receivables – net	**Php10,157,690,460**				

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2006 AND 2005
AND FOR THE THREE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

AND

INDEPENDENT AUDITORS's REPORT

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005
(in million pesos, except par value and share amounts)

	2006	2005
ASSETS		
Noncurrent Assets		
Property, plant and equipment (Notes 2, 3, 8 and 17)	**164,190**	176,974
Investments in associates (Notes 2, 9 and 17)	**636**	15
Investments-available-for-sale (Notes 2 and 24)	**116**	109
Investment properties (Notes 2, 3 and 10)	**587**	701
Goodwill and intangible assets (Notes 2, 3 and 11)	**12,214**	3,049
Deferred income tax assets (Notes 2 and 6)	**19,658**	15,457
Derivative assets (Notes 2 and 24)	**434**	2,648
Notes receivable (Notes 2, 12 and 24)	**–**	346
Prepayments - net of current portion	**843**	1,062
Advances and refundable deposits - net of current portion (Notes 2 and 20)	**1,066**	1,141
Total Noncurrent Assets	**199,744**	201,502
Current Assets		
Cash and cash equivalents (Notes 2, 13 and 24)	**16,870**	30,059
Short-term investments (Notes 2 and 24)	**8,327**	2,750
Trade and other receivables (Notes 2, 3, 14 and 24)	**10,158**	7,856
Inventories and supplies (Notes 2 and 15)	**1,230**	1,548
Derivative assets (Notes 2 and 24)	**47**	37
Current portion of prepayments	**5,360**	5,001
Current portion of advances and refundable deposits (Notes 2 and 20)	**156**	1,444
Total Current Assets	**42,148**	48,695
	241,892	250,197

	2006	2005
EQUITY AND LIABILITIES		
Equity Attributable to Equity Holders of PLDT (Notes 2, 7 and 16)		
Preferred stock, Php10 par value, authorized-822,500,000 shares; issued and outstanding-442,375,057 shares as at December 31, 2006 and 443,343,035 shares as at December 31, 2005	**4,424**	4,433
Common stock, Php5 par value, authorized-234,000,000 shares; issued and outstanding-188,434,695 shares as at December 31, 2006 and 180,789,003 shares as at December 31, 2005	**942**	904
Stock options issued (Note 21)	**40**	67
Equity portion of convertible preferred stock (Note 17)	**9**	49
Capital in excess of par value	**66,574**	53,918
Retained earnings (Note 7)	**32,784**	12,583
Cumulative translation adjustments (Note 24)	**(1,796)**	1,253
Total Equity Attributable to Equity Holders of PLDT	**102,977**	73,207
Minority interest	**1,546**	1,162
Total Equity	**104,523**	74,369

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (*continued*)
December 31, 2006 and 2005
(in million pesos, except par value and share amounts)

	2006	2005
Noncurrent Liabilities		
Interest-bearing financial liabilities - net of current portion (Notes 2, 8, 17, 22 and 24)	**65,244**	97,178
Deferred income tax liabilities (Notes 2 and 6)	**402**	49
Derivative liabilities (Notes 2 and 24)	**6,872**	5,777
Provisions for onerous contracts and assessments - net of current portion (Notes 20, 22 and 23)	**–**	3,966
Pension and other employee benefits (Notes 2, 3 and 21)	**2,982**	4,252
Customers' deposits	**2,204**	2,215
Other noncurrent liabilities (Notes 2, 3, 8, 14 and 18)	**7,581**	7,600
Total Noncurrent Liabilities	**85,285**	121,037
Current Liabilities		
Accounts payable (Notes 2 and 24)	**8,634**	15,966
Accrued expenses and other current liabilities (Notes 2, 3, 17, 19 and 20)	**19,102**	13,306
Unearned revenues (Note 2)	**3,274**	2,656
Derivative liabilities (Notes 2 and 24)	**108**	192
Current portion of provisions for onerous contracts and assessments (Notes 20, 22 and 23)	**446**	408
Current portion of interest-bearing financial liabilities (Notes 2, 8, 17, 22 and 24)	**17,309**	19,438
Dividends payable (Notes 2, 7, 17 and 24)	**773**	746
Income tax payable (Notes 2 and 6)	**2,438**	2,079
Total Current Liabilities	**52,084**	54,791
	241,892	250,197

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2006, 2005 and 2004
(in million pesos, except per share amounts)

	2006	2005	2004
INCOME			
Service revenues	**124,934**	121,062	115,206
Non-service revenues (Note 5)	**2,967**	3,312	6,269
Equity share in net income of associates	**–**	7	–
Other income (Notes 4 and 5)	**5,740**	1,663	4,729
	133,641	126,044	126,204
EXPENSES			
Depreciation and amortization (Notes 4 and 8)	**31,869**	30,822	21,405
Compensation and benefits (Notes 5 and 21)	**18,359**	14,136	12,025
Financing costs (Notes 5, 8, 17 and 24)	**9,084**	9,133	19,264
Maintenance (Note 20)	**6,886**	6,705	5,671
Cost of sales (Notes 5, 20 and 22)	**5,522**	6,501	11,352
Selling and promotions	**5,010**	5,093	5,478
Professional and other contracted services (Notes 5 and 20)	**3,149**	2,464	2,228
Rent (Note 22)	**2,257**	2,086	1,907
Asset impairment (Notes 3, 5, 8, 9 and 11)	**1,819**	26	1,412
Taxes and licenses (Note 23)	**1,747**	2,205	1,997
Communication, training and travel	**1,481**	1,465	1,310
Insurance and security services (Note 20)	**1,255**	1,523	1,644
Provisions (Notes 3, 5, 14, 15, 20, 22 and 23)	**985**	2,926	4,851
Amortization of intangible assets (Note 11)	**450**	244	155
Equity in net losses of associates	**52**	–	74
Other expenses (Note 20)	**1,527**	2,100	2,499
	91,452	87,429	93,272
INCOME BEFORE INCOME TAX	**42,189**	38,615	32,932
PROVISION FOR INCOME TAX (Notes 2 and 6)	**6,870**	4,136	4,973
NET INCOME FOR THE YEAR	**35,319**	34,479	27,959
ATTRIBUTABLE TO:			
Equity holders of PLDT	**35,116**	34,112	28,031
Minority interest	**203**	367	(72)
	35,319	34,479	27,959
Earnings Per Common Share (Note 7)			
Basic	**187.91**	189.96	156.14
Diluted	**187.81**	185.72	154.51

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2006, 2005 and 2004
(in million pesos)

	Preferred Stock	Common Stock	Stock Options Issued	Equity Portion of Convertible Preferred Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Cumulative Translation Adjustments	Equity Attributable to Equity Holders of PLDT	Minority Interest	Total Equity
Balances at January 1, 2004	**4,505**	**847**	**286**	**523**	**49,633**	**(36,982)**	**549**	**19,361**	**771**	**20,132**
Changes in equity:										
Income for the year	–	–	–	–	–	28,031	–	28,031	(72)	27,959
Currency translation differences (Note 24)	–	–	–	–	–	–	17	17	8	25
Net gains on available-for-sale financial assets (Note 24)	–	–	–	–	–	–	(5)	(5)	–	(5)
Net gain on cash flow hedges (Note 24)	–	–	–	–	–	–	(199)	(199)	–	(199)
Total income and expense for the year recognized directly to equity	–	–	–	–	–	–	(187)	(187)	8	(179)
Total income and expense for the year						**28,031**	**(187)**	**27,844**	**(64)**	**27,780**
Cash dividends (Note 7)	**–**	**–**	**–**	**–**	**–**	**(1,527)**	**–**	**(1,527)**	**–**	**(1,527)**
Issuance of capital stock - net (Note 16)	**(8)**	**2**	**–**	**(75)**	**445**	**–**	**–**	**364**	**–**	**364**
Exercised shares	**–**	**2**	**(114)**	**–**	**386**			**274**	**–**	**274**
Cancelled options shares	**–**	**–**	**(5)**	**–**	**5**	**–**	**–**	**–**	**–**	**–**
Cost of share-based payments	**–**	**–**	**14**	**–**	**–**	**–**	**–**	**14**	**–**	**14**
Minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**150**	**150**
Balances at December 31, 2004	**4,497**	**851**	**181**	**448**	**50,469**	**(10,478)**	**362**	**46,330**	**857**	**47,187**
Balances at January 1, 2005	**4,497**	**851**	**181**	**448**	**50,469**	**(10,478)**	**362**	**46,330**	**857**	**47,187**
Changes in equity:										
Income for the year	–	–	–	–	–	34,112	–	34,112	367	34,479
Currency translation differences (Note 24)	–	–	–	–	–	–	(62)	(62)	(36)	(98)
Net gains on available-for-sale financial assets (Note 24)	–	–	–	–	–	–	4	4	–	4
Net gain on cash flow hedges (Note 24)	–	–	–	–	–	–	949	949	–	949
Total income and expense for the year recognized directly to equity	–	–	–	–	–	–	891	891	(36)	855
Total income and expense for the year	**–**	**–**	**–**	**–**	**–**	**34,112**	**891**	**35,003**	**331**	**35,334**
Cash dividends (Note 7)	**–**	**–**	**–**	**–**	**–**	**(11,051)**	**–**	**(11,051)**	**–**	**(11,051)**
Issuance of capital stock - net (Note 16)	**(64)**	**51**	**–**	**(399)**	**3,062**	**–**		**2,650**	**–**	**2,650**
Exercised shares	**–**	**2**	**(113)**	**–**	**386**	**–**	**–**	**275**	**–**	**275**
Cancelled options shares	**–**	**–**	**(1)**	**–**	**1**	**–**	**–**	**–**	**–**	**–**
Minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26)**	**(26)**
Balances at December 31, 2005	**4,433**	**904**	**67**	**49**	**53,918**	**12,583**	**1,253**	**73,207**	**1,162**	**74,369**
Balances at January 1, 2006	**4,433**	**904**	**67**	**49**	**53,918**	**12,583**	**1,253**	**73,207**	**1,162**	**74,369**
Changes in equity:										
Income for the year	–	–	–	–	–	35,116	–	35,116	202	35,318
Currency translation differences (Note 24)	–	–	–	–	–	–	(535)	(535)	(45)	(580)
Net gains on available-for-sale financial assets (Note 24)	–	–	–	–	–	–	(5)	(5)	–	(5)
Net loss on cash flow hedges (Note 24)	–	–	–	–	–	–	(2,509)	(2,509)	–	(2,509)
Total income and expense for the year recognized directly to equity	–	–	–	–	–	–	(3,049)	(3,049)	(45)	(3,094)
Total income and expense for the year	**–**	**–**	**–**	**–**	**–**	**35,116**	**(3,049)**	**32,067**	**157**	**32,224**
Cash dividends (Note 7)	**–**	**–**	**–**	**–**	**–**	**(14,915)**	**–**	**(14,915)**	**–**	**(14,915)**
Issuance of capital stock - net (Note 16)	**(9)**	**38**	**–**	**(40)**	**12,567**	**–**	**–**	**12,555**	**–**	**12,555**
Exercised shares (Note 21)	**–**	**–**	**(27)**	**–**	**89**	**–**	**–**	**63**	**–**	**63**
Minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**227**	**227**
Balances at December 31, 2006	**4,424**	**942**	**40**	**9**	**66,574**	**32,784**	**(1,796)**	**102,977**	**1,546**	**104,523**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006, 2005 and 2004
(in million pesos)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**42,189**	38,615	32,932
Adjustments for:			
Depreciation and amortization (Note 8)	**31,869**	30,822	21,405
Interest on loans and related items - net of capitalized interest (Note 5)	**7,359**	10,377	11,853
Accretion on financial liabilities - net (Note 5)	**3,314**	2,882	3,412
Asset impairment (Note 5)	**1,819**	26	1,412
Provision for doubtful accounts (Note 5)	**736**	2,251	3,955
Amortization of intangible assets (Note 11)	**450**	244	155
Loss on derivative transactions - net (Note 5)	**405**	628	864
Write-down of inventories to net realizable values (Note 5)	**211**	479	577
Dividends on preferred stock subject to mandatory redemption (Note 5)	**130**	251	284
Equity share in net loss(income) of associates	**52**	(7)	74
Provisions for onerous contracts and assessments (Note 5)	**38**	196	319
Interest income (Note 5)	**(1,654)**	(1,535)	(942)
Foreign exchange (gains) losses – net (Note 5)	**(1,967)**	(4,906)	2,636
Gain on reversal of provision for onerous contracts (Notes 5, 20, 22 and 23)	**(3,529)**	–	–
Gain on debt exchange and debt restructuring transactions (Note 5)	**–**	–	(4,419)
Others	**(1,040)**	(317)	704
Operating income before working capital changes	**80,382**	80,006	75,221
Decrease (increase) in:			
Trade and other receivables	**(1,187)**	(1,036)	2,290
Inventories and supplies	**343**	509	7
Prepayments	**(1,513)**	(3,293)	119
Advances and refundable deposits	**1,329**	(240)	(873)
Increase (decrease) in:			
Accounts payable	**(9,254)**	6,466	2,614
Accrued expenses and other current liabilities	**1,613**	2,457	1,560
Unearned revenues	**575**	(250)	(213)
Pension and other employee benefits	**3,718**	1,316	(750)
Net cash generated from operations	**76,006**	85,935	79,975
Income taxes paid	**(8,267)**	(9,722)	(5,478)
Net cash provided by operating activities	**67,739**	76,213	74,497
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 5)	**(20,125)**	(14,486)	(20,567)
Proceeds from disposal of property, plant and equipment	**694**	912	112
Interest paid – capitalized to property, plant and equipment (Notes 5 and 8)	**(549)**	(504)	(595)
Payments for purchase of investments - net of cash acquired (Note 11)	**(10,890)**	(248)	(1,366)
Additions to investment properties	**–**	–	(3)
Proceeds from disposal of investment properties	**72**	11	–
(Increase) decrease in short-term investments	**(5,508)**	1,202	(2,212)
Decrease (increase) in investments in notes receivable	**89**	(60)	(286)
Interest received	**1,481**	1,408	954
(Increase) decrease in advances and refundable deposits	**(1,054)**	71	24
Net cash used in investing activities	**(35,790)**	(11,694)	(23,939)

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (*continued*)
For the Years Ended December 31, 2006, 2005 and 2004
(in million pesos)

	2006	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt	**9,724**	5,471	12,131
Payments of long-term debt	**(29,238)**	(44,323)	(39,548)
Payments of debt issuance costs	**(34)**	(133)	–
Proceeds from notes payable	**211**	329	502
Payments of notes payable	**(128)**	(387)	(2,457)
Payments of obligations under capital lease	**(210)**	(38)	(136)
Interest paid - net of capitalized portion	**(7,528)**	(10,545)	(12,310)
Settlements of derivatives	**(2,304)**	(1,645)	(210)
Cash dividends paid	**(14,913)**	(10,972)	(1,456)
Proceeds from issuance of capital stock	**66**	285	281
Increase (decrease) in:			
Customers' deposits	**6**	42	(4)
Other noncurrent liabilities	**(80)**	1,122	667
Net cash used in financing activities	**(44,428)**	(60,794)	(42,540)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(710)**	(987)	(69)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,189)**	2,738	7,949
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**30,059**	27,321	19,372
CASH AND CASH EQUIVALENTS AT END OF YEAR	**16,870**	30,059	27,321

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The Philippine Long Distance Telephone Company, or PLDT, or Parent Company, was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common ownership by United States entities. In 1967, effective control of PLDT was sold by General Telephone and Electronics Corporation (a major shareholder since PLDT's incorporation) to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company, which at that time was the second largest telephone company in the Philippines. In 1998, First Pacific Company Limited, or First Pacific, through its Philippine and other affiliates, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications Corporation, or NTT Communications, through NTT Communications Capital (UK) Ltd., became PLDT's strategic partner with approximately 15% economic and voting interest in the issued and outstanding common stock of PLDT. Simultaneous with NTT Communications' investment in PLDT, we acquired 100% of Smart Communications, Inc., or Smart. On March 14, 2006, NTT DoCoMo, Inc., or DoCoMo, acquired from NTT Communications 7% of PLDT's outstanding common shares held by NTT Communications; NTT Communications retained a 7% equity shareholding.

The common shares of PLDT are listed and traded on the Philippine Stock Exchange, or PSE, and prior to October 19, 1994, were listed and traded on the American Stock Exchange and the Archipelago Exchange (then the Pacific Exchange) in the United States. On October 19, 1994, an American Depositary Receipt, or ADR, facility was established, pursuant to which Citibank N.A., as the depositary, issued ADRs evidencing American Depositary Shares, or ADSs, with each ADS representing one PLDT common share with a par value of Php5 per share. JP Morgan Chase Bank was appointed as successor depositary for PLDT's ADR facility effective February 10, 2003. The ADSs are listed on the New York Stock Exchange, or NYSE, and on the NYSE Arca (formerly Archipelago Exchange) in the United States and are traded on the NYSE.

On December 28, 2006, PLDT issued a notice of its intent to delist the ADSs from NYSE Arca (but will continue and maintain the listing of the ADSs on the NYSE) since there is no additional advantage in having dual listing of the ADS, on both the NYSE and NYSE Arca. The delisting from NYSE Arca will eliminate duplicative administrative burdens and costs. The actual delisting from the NYSE Arca is expected to be effective sometime in the first half of 2007.

PLDT's charter, like those of all other Philippine corporations, was initially limited to a period of 50 years but has since been extended twice for 25 years each, the last extension being for an additional 25-year period through 2028. Under its amended charter (Republic Act No. 7082), which became effective on August 24, 1991, PLDT is authorized to provide virtually every type of telecommunications service, both within the Philippines and between the Philippines and other countries.

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

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

Our consolidated financial statements as at December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006 were approved and authorized by the Board of Directors, as recommended by the Audit Committee on March 6, 2007 as attached in the Philippine Securities and Exchange Commission, or SEC, Form 17-Q.

The reissuance of consolidated financial statements in SEC Form 17-A were approved for issuance on April 13, 2007 by the Audit Committee.

2. Summary of Significant Accounting Policies and Practices

Basis of Preparation

Our consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments, available-for-sale financial assets and investment properties that have been measured at fair values. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

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

Statement of Compliance

Our consolidated financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth under Philippine Financial Reporting Standards, or PFRS.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that we have adopted the following new and amendments to Philippine Accounting Standards, or PAS, PFRS and Philippine Interpretations of International Financial Reporting Interpretations Committee, or IFRIC, during the year. Our adoption of these revised standards and interpretations did not have any effect on our financial statements. Our adoption, however, gave rise to additional disclosures on the following:

- PAS 19 – Amendment – Employee Benefits;
- PAS 21 – Amendment – The Effects of Changes in Foreign Exchange Rates;
- PAS 39 – Amendment – Financial Instruments: Recognition and Measurement;
- PFRS 6 – Exploration for and Evaluation of Mineral Resources;
- IFRIC 4 – Determining Whether an Arrangement Contains a Lease;
- IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6 – Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

The principal effects of our adoption of the above standards are as follows:

PAS 19, "Employee Benefits". As of January 1, 2006, we adopted the amendments to PAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost.

This change has resulted in additional disclosures but has not had any recognition or measurement impact, as we chose not to apply the new option offered to recognize actuarial gains and losses outside of the consolidated statement of income.

PAS 21, "The Effects of Changes in Foreign Exchange Rates". As of January 1, 2006, we adopted the amendments to PAS 21. As a result, all exchange differences arising from a monetary item that forms part of our net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. The adoption has had no significant impact on our consolidated financial statements as at December 31, 2006 and 2005.

PAS 39, "Financial Instruments: Recognition and Measurement". There were three amendments to PAS 39 issued in 2005 that became effective for financial years beginning on or after January 1, 2006.

Amendment for financial guarantee contracts – amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be re-measured at the higher of the amount determined in accordance with *PAS 37, "Provisions, Contingent Liabilities and Contingent Assets,"* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with *PAS 18, "Revenue"*. This amendment did not have an effect on our consolidated financial statements.

Amendment for hedges of forecast intragroup transactions – amended the scope of PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated statement of income. As we currently have no such transactions, the amendment did not have an effect on our consolidated financial statements.

Amendment for the fair value option – amended the scope of PAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated statement of income. As we have not previously used this option, the amendment did not have an effect on our consolidated financial statements.

PFRS 6, "Exploration for and Evaluation of Mineral Resources". PFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of *PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors"*. As we are not into exploration of mineral resources, this standard has had no impact on the consolidated financial statements.

IFRIC 4, "Determining Whether an Arrangement Contains a Lease". We adopted IFRIC 4 as of January 1, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. Upon adoption of the standard, we reviewed all of the outstanding contracts and agreements and determined the change in accounting policy had no significant impact on us as at December 31, 2006 and 2005.

IFRIC 5, "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds". IFRIC 5 establishes the accounting treatment for funds established to help finance decommissioning for the PLDT Group's assets. As we do not currently operate on a country where such funds exist, this interpretation has had no impact on the consolidated financial statements.

IFRIC 6, "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment". IFRIC 6 established the recognition date for liabilities arising from the

European Union Directive relating to the disposal of Waste Electrical and Electronic Equipment. As we do not have waste electrical and electronic equipment and is not a member of the European Union, this interpretation has had no impact on our consolidated financial statements.

Basis of Consolidation

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

Name of Subsidiary	Place of Incorporation	Principal Activity	Percentage of Ownership	
			Direct	Indirect
Wireless				
Smart	Philippines	Cellular mobile services	100.0	–
Smart Broadband, Inc., or Smart Broadband (formerly Meridian Telekoms, Inc., or Meridian)	Philippines	Internet broadband and distributor	–	100.0
Wolfpac Mobile, Inc., or Wolfpac	Philippines	Mobile applications developer and service provider	–	100.0
Pilipino Telephone Corporation, or Piltel	Philippines	Providing cellular and fixed line services	–	92.1
Telesat, Inc., or Telesat	Philippines	Satellite communications services	94.4	–
ACeS Philippines Cellular Satellite Corporation, or ACeS Philippines	Philippines	Satellite phone 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	–
Subic Telecommunications Company, 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				
ePLDT, Inc., or ePLDT	Philippines	Information and communications infrastructure for internet-based services, e-commerce, call centers and IT-related services	100.0	–
Vocativ Systems, Inc., or Vocativ	Philippines	Call center services	–	100.0
Parlance Systems, Inc., or Parlance	Philippines	Call center services	–	100.0
ePLDT Ventus, Inc., or Ventus	Philippines	Call center services	–	100.0
SPi Technologies, Inc., or SPi, and Subsidiaries	Philippines	Business process outsourcing, or BPO, services	–	100.0
Infocom Technologies, Inc., or Infocom	Philippines	Internet services	–	99.6
netGames, Inc., or netGames	Philippines	Publisher of online games	–	80.0
Digital Paradise, Inc., or Digital Paradise (formerly Netopia Computer Technologies, Inc.)	Philippines	Internet access services	–	75.0
Level Up! (Philippines), Inc., or Level Up!	Philippines	Publisher of online games	–	60.0
Digital Paradise Thailand	Thailand	Internet access services	–	51.0
Airborne Access Corporation, or Airborne Access	Philippines	Wireless internet services	–	51.0

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

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

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

Smart's 20% Acquisition of Wolfpac

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

ePLDT's Acquisition of Level Up!

On February 16, 2006, ePLDT acquired a 60% equity interest in Level Up!, a leading publisher of online games in the Philippines. The acquisition of Level Up!, together with netGames, ePLDT's online gaming subsidiary, will strengthen ePLDT's online gaming business in the Philippines.

Post-closing conditions were completed on April 30, 2006. In August 2006, the Shareholders Agreement and Share Purchase Agreement between ePLDT and Level Up! were amended to reflect the removal of earn-out and price adjustment provisions thereby fixing the acquisition for 60% of Level Up! at the aforementioned original purchase price of US$7 million.

ePLDT's Acquisition of SPi

On July 11, 2006, ePLDT acquired a 100% equity interest in SPi and its direct and indirect Philippine and offshore subsidiaries for a total cash consideration of US$135 million. As part of the transaction, ePLDT also acquired a US$7 million debt owed by SPi to the seller at face value. In addition, ePLDT advanced US$16 million to SPi in order for SPi to fully pay its debt owed to DBS Bank Singapore. ePLDT currently intends to have this debt refinanced by SPi in due course.

SPi is the second largest pure-play BPO Company and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. Its customers include Fortune 100 companies, non-profit organizations and government agencies in the financial services, healthcare, legal and publishing markets. SPi services these customers onsite, and from facilities in the Philippines, India, U.S., China and Vietnam.

SPi's Acquisition of CyMed, Inc., or CyMed

On August 11, 2006, SPi in turn acquired a 100% equity interest in CyMed for an aggregate purchase price of US$35 million, inclusive of certain debt obligations.

CyMed is a leading medical transcription company based in Richmond, Virginia, United States of America (USA). It provides medical transcription services and technology products through proprietary processes based on Six Sigma quality management principles. The company currently serves over 400 healthcare systems, independent hospitals, and government-affiliated clinics across the USA. CyMed employs 650 U.S.-based staff members and has offices in the States of Virginia, Tennessee and Ohio.

Investments in Associates

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

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

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

Foreign Currency Translation

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

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

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its purchase price and any costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Cost also includes asset retirement obligation, interest on borrowed funds used during the construction period and qualified borrowing costs from foreign exchange losses related to foreign currency-denominated liabilities used to acquire such qualifying assets. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income of such period.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets.

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

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

Borrowing Costs

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

All other borrowing costs are expensed as incurred.

Borrowing costs are treated as deductible expenses for income tax reporting purposes in the year they are incurred or realized.

Asset Retirement Obligations

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

Investment Properties

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

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

Business Combinations and Goodwill

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

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

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

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

Intangible Assets

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

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

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

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

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

Impairment of Non-Financial Assets

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

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

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

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

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. We perform an impairment test of goodwill annually.

Intangible Assets

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

Associates

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

Research and Development Costs

Research and development costs are expensed as incurred.

Cash and Cash Equivalents

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

Trade and Other Receivables

Trade and other receivables are stated at face value, net of an allowance for any doubtful accounts.

Allowance for Doubtful Accounts

The PLDT Group's accounting policy in evaluating any impairment of receivable is discussed under impairment of financial assets section of this Note. Consequently, allowance for doubtful accounts is maintained at a level considered adequate to provide for uncollectible receivables. The level of allowance is based on historical collections, write-off experience, current economic trends, changes in our customer payment terms and other factors that may affect our ability to collect payments. An evaluation of the receivables, designed to identify potential charges to the allowance, is performed on a continuous basis during the year.

Subscribers. Full allowance is provided for receivables from permanently disconnected subscribers. Permanent disconnections are made after a series of collection steps following non-payment by subscribers. Such permanent disconnections generally occur within 105 days from the date of payment was due. Partial allowance is provided for active subscribers based on the historical loss experience and aging profile of the receivable.

Traffic settlement receivables - net. Full allowance is provided for carrier accounts which are considered over-due and after a review of the status of settlement with other carriers.

Inventories and Supplies

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

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

Interest-bearing Financial Liabilities

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Convertible Preferred Stock

Peso-denominated

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

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

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

Foreign currency-denominated

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

Provisions

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

Retirement Benefits

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

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

Upon our adoption of PAS 19, we opted to amortize our transition liabilities for the three years ended December 31, 2006, 2005 and 2004, see *Note 21 – Employee Benefits*.

Share-Based Payment Transactions

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

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value of the stock options at the date at which they are granted. Fair value is determined using an option-pricing model, further details of which are set forth in *Note 21 – Employee Benefits*. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of PLDT ("market conditions").

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

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

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

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

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

Cash-settled transactions

Our Long-Term Incentive Plan, or LTIP, grants share appreciation rights, or SARs, to our eligible key executives and advisors. Under the LTIP, we recognize the services we receive from 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.

Leases

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

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

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

Lease obligations having provisions for bargain purchase options, ownership transfer at the end of the lease term, or where the present value of minimum lease payments approximate the fair market value of the property, are capitalized. Any initial direct costs of the lessee are added to the amount capitalized. The related obligations are recognized as liabilities. Finance lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are carried in the consolidated statement of income.

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

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

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

Revenue Recognition

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

Service revenues

Subscriptions

We provide telephone and data communication services under prepaid and postpaid payment arrangements. Revenues, including fees for installation and activation, are accrued upon subscription.

Air time, traffic and value-added services

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

Business Process Outsourcing, or BPO

Where applicable, supplemental revenues are recognized depending on service levels or achievement of certain performance measurement targets. We recognize these supplemental revenues only after it has achieved the required measurement targets. When these service levels or performance measurement targets are not achieved, we grant service credits as a reduction in fees. Advance customer receipts that have not been recognized as revenue in accordance with its stated policies are recorded as advances from customers and presented as a liability in the consolidated balance sheet. If the fee is not fixed or determinable, revenue is not recognized on those arrangements until the customer payment is received. For arrangements requiring specific customer acceptance, revenue recognition is deferred until the earlier of the end of the deemed acceptance period or until written notice of acceptance is received from the customer. Revenue on services rendered to customers whose ability to pay is in doubt at the time of performance of services is also not recorded. Rather, revenue is recognized from these customers as payment is received.

Incentives

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

Non-service revenues

Handset and equipment sales

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

Interest

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

Income Taxes

Current tax

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

Deferred income tax

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

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

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

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

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

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

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

Earnings Per Common Share, or EPS

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

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

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

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

Investments and Other Financial Assets and Liabilities

Financial assets and liabilities within the scope of PAS 39 are classified as either financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. We determine the classification of our financial assets and liabilities after initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date. When financial assets and liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable to transaction costs. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

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

Financial assets and liabilities at fair value through profit or loss

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

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments or liabilities held for trading are recognized in profit and loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset and financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on them on a different basis; or (ii) the assets and liabilities are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets and liabilities contains an embedded derivative that would need to be separately recorded.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which we have the positive intention and ability to hold to maturity. After initial measurement held-to-maturity, investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gain or loss being recognized directly in equity in the cumulative translation adjustments except when the financial asset is impaired. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate method. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established.

We consider whether a contract contains an embedded derivative, when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

Impairment of Financial Assets

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

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through an allowance account. The amount of the loss is recognized in the consolidated statement of income.

We first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that we will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

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

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

Derivative Financial Instruments and Hedging

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

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

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

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

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

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

Fair value hedges

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

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

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment

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

New Accounting Standards Subsequent to 2006

The Philippine Financial Reporting Standard Council has approved the adoption as part of PFRS of the following amendments to PAS, PFRS and IFRIC, which will be effective subsequent to the fiscal year ended December 31, 2006:

IFRIC 7, "Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies". The Interpretation requires that when a country becomes hyperinflationary, PAS 29 must be applied as if the country had always been hyperinflationary and it provides guidance on calculating deferred taxes and comparatives. As we do not operate in a hyperinflationary economy, we do not expect a material impact to our consolidated financial statements when this standard is adopted in 2007.

IFRIC 8, "Scope of PFRS 2, Share-based Payment". The Interpretation clarifies that *PFRS 2, "Share-based Payment"*, applies to share-based payment transactions in which the entity cannot specifically identify some or all of the goods or services received. If the value of the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or the liability incurred, this is an indication other consideration (i.e. unidentifiable goods or services) has been (or will be) received which should be measured in accordance with PFRS 2. This becomes effective for financial years beginning on or after May 1, 2006. We will adopt this Interpretation in our 2007 consolidated financial statements and we are currently evaluating any effect that the adoption of this Interpretation may have on our consolidated financial statements.

IFRIC 9, "Reassessment of Embedded Derivatives". The Interpretation clarifies when an entity should reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognized. It concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This becomes effective for financial years beginning on or after June 1, 2006. We will adopt this Interpretation in our 2007 consolidated financial statements and we are currently evaluating any effect that the adoption of this Interpretation may have on our consolidated financial statements.

IFRIC 10, "Interim Financial Reporting and Impairment". The Interpretations states that any such impairment losses recognized in an interim financial statement must not be reversed in subsequent interim or annual financial statements. This becomes effective for financial years beginning on or after November 1, 2006. We will adopt this Interpretation in our 2007 consolidated financial statements and we are currently evaluating any effect that the adoption of this Interpretation may have on our consolidated financial statements.

IFRIC 11, "IFRS 2, Group and Treasury Share Transactions". This Interpretation addresses issues whether transactions should be accounted for as equity-settled or as cash-settled under PFRS 2 and issues the concerning share-based payment arrangement involving entities within the same group. We will assess impact on our consolidated financial statements when the standard is adopted in 2007.

The Amendments to PAS 1, "Presentation of Financial Statements - Capital Disclosures". This amendment requires us to include new disclosures to enable users of the financial statements to evaluate our objectives, policies and processes for managing capital. We will adopt the amendment to PAS in 2007.

PFRS 7, "Financial Instruments - Disclosures". This introduces new disclosures to improve information about our consolidated financial statements and the nature and extent of risks arising from financial instruments. The revised disclosures on financial instruments provided by this standard will be included on our consolidated financial statements when the amendment to the standard is adopted in 2007.

IFRIC 12, "Service Concession Arrangements". This will become effective on January 1, 2008. This interpretation, which covers contractual arrangements arising from entities providing public services, is not relevant to our current operations.

PFRS 8, "Operating Segments". This will be effective on January 1, 2009 and will replace *PAS 14, "Segment Reporting"*, and adopts a management approach to reporting segment information. The requirements of this standard will be included on our consolidated financial statements when the standard is adopted.

We expect that the adoption of the pronouncements listed above and effective subsequent to 2006 will have no significant impact on our consolidated financial statements in the period of initial application.

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3. Management's Use of Estimates and Judgments

In preparing our consolidated financial statements under PFRS, the management is required to make estimates and assumptions that affect amounts reported in our consolidated financial statements and related notes. In preparing our consolidated financial statements, we have made our best estimates and judgments of certain amounts, giving due consideration to materiality. We believe the following represents a summary of these significant estimates and judgments and related impacts and associated risks to our consolidated financial statements.

Estimating useful lives of property, plant and equipment

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

Total carrying values of property, plant and equipment amounted to Php164,190 million and Php176,974 million as at December 31, 2006 and 2005, respectively, see *Note 8 – Property, Plant and Equipment.*

Goodwill and intangible assets

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

Total carrying values of goodwill and intangible assets as at December 31, 2006 and 2005 amounted to Php12,214 million and Php3,049 million, respectively. Impairment losses recognized for the year ended December 31, 2006 amounted to Php50 million and none for the years ended December 31, 2005 and 2004.

Asset impairment

PFRS requires that an impairment review be performed when certain impairment indicators are present. In the case of goodwill, at a minimum, such asset is subject to a yearly impairment test and 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 PFRS. Total impairment charges for the years ended December 31, 2006, 2005 and 2004 amounted to Php1,819 million, Php26 million and Php1,412 million, respectively, see *Note 5 – Income and Expenses*.

Investment properties

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

Total carrying values of investment properties as at December 31, 2006 and 2005 amounted to Php587 million and Php701 million, respectively, see *Note 10 – Investment Properties*.

Deferred tax assets

We review the carrying amounts of deferred 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 tax assets to be utilized. Our assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on our past results and future expectations on revenues and expenses. As management believes, it will have no sufficient future taxable income to utilize the benefits of deductible temporary differences and there is no assurance that we will generate sufficient taxable income to allow all or part of our deferred tax assets to be utilized.

Total unrecognized deferred tax assets as at December 31, 2006 and 2005 amounted to Php299 million and Php5,615 million, respectively, see *Note 6 – Income Tax.*

Financial assets and liabilities

We carry certain of our financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring, see *Note 24 – Financial Assets and Liabilities*. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if we utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would directly affect our consolidated statement of income and equity.

Total fair value of financial assets and liabilities as at December 31, 2006 amounted to Php35,952 million and Php106,300 million, respectively, while the total fair value of financial assets and liabilities as at December 31, 2005 amounted to Php43,805 million and Php149,332 million, respectively.

Estimating allowance for doubtful accounts

We estimate the allowance for doubtful accounts related to our trade receivables based on two methods. The amounts calculated using each of these methods are combined to determine the total amount we reserve. We evaluate specific accounts where we have information that certain customers are unable to meet their financial obligations. 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 current credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due to reduce our receivables to amounts that we expect to collect. These specific reserves are re-evaluated and adjusted as additional information received affects the amounts estimated. Full allowance is provided for receivables from permanently disconnected subscribers and carriers. Such permanent disconnections generally occur within 105 days from the date of payment was due. Partial allowance is provided for active subscribers and carriers based on the age status of receivables.

The amounts and timing of recorded expenses for any period would differ if we made different judgments or utilized different estimates. An increase in our allowance for doubtful accounts would increase our recorded operating expenses and decrease our current assets.

Provision for doubtful accounts amounted to Php736 million, Php2,251 million and Php3,955 million for the years ended December 31, 2006, 2005 and 2004, respectively. Trade and other receivables, net of allowance for doubtful accounts, amounted to Php10,158 million and Php7,856 million as at December 31, 2006 and 2005, respectively, see *Note 5 – Income and Expenses* and *Note 14 – Trade and Other Receivables*.

Asset retirement obligations

Asset retirement obligations are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. This requires an estimation of the cost to restore/dismantle on a per square meter basis, depending on the location, and is based on the best estimate of the expenditure required to settle the obligation at the balance sheet date, discounted using a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risk specific to the liability. Total provision for asset retirement obligations amounted to Php831 million and Php752 million as at December 31, 2006 and 2005, respectively, see *Note 8 – Property, Plant and Equipment* and *Note 18 – Other Noncurrent Liablities*.

Revenue recognition

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

Our agreements with domestic and foreign carriers for inbound and outbound traffic subject to settlements require traffic reconciliations before actual settlement is done, which may not be the actual volume of traffic as measured by us. Initial recognition of revenues is based on our observed traffic adjusted by our normal experience adjustments, which historically are not material to our 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. Revenue for handset sales has been quantified and identified separately using the residual value method from our cellular service revenue.

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

Pension 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 21 – Employee Benefits 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.

Unrecognized net actuarial loss as at December 31, 2006 and 2005 amounted to Php4,657 million and Php162 million, respectively. The accrued benefit cost as at December 31, 2006 and 2005 amounted to Php2,888 million and Php2,275 million, respectively.

Share-based payment transactions

Our 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 21 – Employee Benefits* and include, among other things, annual stock volatility, risk free interest rate, remaining life, and the fair value of common stock. While management believes that the assumptions and estimates used are reasonable and appropriate, significant differences in our actual experience or significant changes in the assumptions may materially affect the stock compensation costs charged to operations. The fair value of the LTIP recognized as an expense for the years ended December 31, 2006, 2005 and 2004 amounted to Php3,150 million, Php1,214 million and Php631 million, respectively. As at December 31, 2006 and 2005, total LTIP liability amounted to Php5,030 million and Php1,880 million, respectively, see *Note 21 – Employee Benefits*.

Legal contingencies

We are currently involved in various legal proceedings. Our estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling our defense in these matters and is based upon an analysis of potential results. We currently do not believe these proceedings will have a material adverse effect on our 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 23 – Provisions and Contingencies.*

Outstanding provisions to cover these contingencies amounted to Php446 million and Php4,374 million as at December 31, 2006 and 2005, respectively. As discussed in *Note* 23 – *Provisions and Contingencies*, the provision for onerous contracts was reversed with the amendment of the Air Time Purchase Agreement.

Determination of functional currency

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

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

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

4. Segment Information

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

We have organized our business into three main segments:

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

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

- Information and Communications Technology — information and communications infrastructure and services for internet applications, internet protocol-based solutions and multimedia content delivery provided by PLDT's subsidiary ePLDT; call center services provided under one umbrella brand name *ePLDT Ventus*, including Parlance and Vocativ; BPO services provided by SPi (consolidated on July 11, 2006) and its subsidiaries; internet access and gaming services provided by ePLDT's subsidiaries Infocom, Digital Paradise, Digital Paradise Thailand, netGames, Airborne Access and Level Up!; and e-commerce and IT-related services provided by other investees of ePLDT, as described in *Note 9 – Investments in Associates*.

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

The segment assets and results of operations of our reportable segments as at and for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Wireless	Fixed Line	Information and Communications Technology	Inter-segment Transactions	Total
			(in million pesos)		
As at and for the year ended December 31, 2006					
Income					
Service revenues	78,383	49,134	6,337	(8,920)	124,934
Non-service revenues	2,457	79	553	(122)	2,967
Other income	706	5,006	128	(100)	5,740
Segment income	81,546	54,219	7,018	(9,142)	133,641
Result					
Income (loss) before income tax	36,854	5,684	(349)	–	42,189
Provision for (benefit from) income tax	6,478	429	(37)	–	6,870

	Wireless	Fixed Line	Information and Communications Technology	Inter-segment Transactions	Total
			(in million pesos)		
Net income (loss) for the year	30,376	5,255	(312)	–	35,319
Assets and liabilities					
Segment assets	86,905	184,096	17,431	(66,198)	222,234
Deferred income tax assets	4,991	14,608	59	–	19,658
Total assets	91,896	198,704	17,490	(66,198)	241,892
Segment liabilities	48,751	91,192	3,396	(6,372)	136,967
Deferred income tax liabilities	6	–	396	–	402
Total liabilities	48,757	91,192	3,792	(6,372)	137,369
Other segment information					
Capital expenditures	10,490	9,052	1,132	–	20,674
Depreciation and amortization	10,752	20,406	711	–	31,869
Provisions	829	92	64	–	985
Asset impairment	1,391	–	428	–	1,819
Interest on loans and related items - net of capitalized interest	1,386	5,953	20	–	7,359
Interest income	1,197	441	16	–	1,654
As at and for the year ended December 31, 2005					
Income					
Service revenues	74,677	49,663	2,953	(6,231)	121,062
Non-service revenues	3,036	41	351	(116)	3,312
Equity share in net income of associates	–	–	7	–	7
Other income	1,445	286	127	(195)	1,663
Segment income	79,158	49,990	3,438	(6,542)	126,044
Result					
Income before income tax	38,464	93	58	–	38,615
Provision for (benefit from) income tax	4,800	(676)	12	–	4,136
Net income for the year	33,664	769	46	–	34,479
Assets and liabilities					
Segment assets	97,643	185,140	4,355	(52,398)	234,740
Deferred income tax assets	2,022	13,430	5	–	15,457
Total assets	99,665	198,570	4,360	(52,398)	250,197
Segment liabilities	57,527	124,620	3,599	(9,967)	175,779
Deferred income tax liabilities	44	–	5	–	49
Total liabilities	57,571	124,620	3,604	(9,967)	175,828
Other segment information					
Capital expenditures	8,827	5,543	620	–	14,990
Depreciation and amortization	10,156	20,251	415	–	30,822
Provisions	575	2,297	54	–	2,926
Asset impairment	–	–	26	–	26
Interest on loans and related items - net of capitalized interest	1,714	8,639	24	–	10,377
Interest income	1,135	385	15	–	1,535
As at and for the year ended December 31, 2004					
Income					
Service revenues	69,015	48,486	2,080	(4,375)	115,206

	Wireless	Fixed Line	Information and Communications Technology	Inter-segment Transactions	Total
			(in million pesos)		
Non-service revenues	6,111	–	321	(163)	6,269
Other income	4,597	324	14	(206)	4,729
Segment income	79,723	48,810	2,415	(4,744)	126,204
Result					
Income (loss) before income tax	31,703	1,852	(623)	–	32,932
Provision for income tax	4,316	585	72	–	4,973
Net income (loss) for the year	27,387	1,267	(695)	–	27,959
Assets and liabilities					
Segment assets	93,962	198,090	3,716	(43,694)	252,074
Deferred income tax assets	8	12,660	9	–	12,677
Total assets	93,970	210,750	3,725	(43,694)	264,751
Segment liabilities	59,688	163,733	3,524	(10,663)	216,282
Deferred income tax liabilities	1,282	–	–	–	1,282
Total liabilities	60,970	163,733	3,524	(10,663)	217,564
Other segment information					
Capital expenditures	14,742	5,903	517	–	21,162
Depreciation and amortization	10,940	10,125	340	–	21,405
Provisions	417	4,431	3	–	4,851
Asset impairment	430	365	617	–	1,412
Interest on loans and related items - net of capitalized interest	1,656	10,202	43	(48)	11,853
Interest income	724	248	18	(48)	942

5. Income and Expenses

Non-service Revenues

	2006	2005	2004
		(in million pesos)	
Sale of computers, cellular handsets and SIM-packs	**2,536**	3,077	6,111
Point-product sales	**431**	235	158
	2,967	3,312	6,269

Other Income

	2006	2005	2004
		(in million pesos)	
Gain on reversal of provision for onerous contracts (Notes 20, 22 and 23)	**3,529**	–	–
Gain on debt exchange and debt restructuring transactions	**–**	–	4,419
Miscellaneous income	**2,211**	1,663	310
	5,740	1,663	4,729

Compensation and Benefits

	2006	2005	2004
		(in million pesos)	
Salaries and benefits	**13,761**	11,688	10,110
Incentive plan (Notes 3 and 21)	**3,150**	1,214	631
Pension (Note 21)	**1,003**	776	718
Manpower rightsizing program	**445**	458	566
	18,359	14,136	12,025

Financing Costs

	2006	2005	2004
		(in million pesos)	
Interest on loans and related items	**7,908**	10,881	12,448
Accretion on financial liabilities - net (Notes 2, 17 and 24)	**3,314**	2,882	3,412
Hedge costs (Note 24)	**1,446**	1,234	1,011
Loss on derivative transactions - net (Notes 2 and 24)	**405**	628	864
Dividends on preferred stock subject to mandatory redemption (Note 7)	**130**	251	284
Financing charges	**51**	202	146
Capitalized interest (Notes 2 and 8)	**(549)**	(504)	(595)
Interest income	**(1,654)**	(1,535)	(942)
Foreign exchange (gains) losses - net (Notes 17 and 24)	**(1,967)**	(4,906)	2,636
	9,084	9,133	19,264

Interest expense for short-term borrowing for the years ended December 31, 2006, 2005 and 2004 amounted to Php10 million, Php2 million and Php5 million, respectively.

Cost of Sales

	2006	2005	2004
		(in million pesos)	
Cost of computers, cellular handsets and SIM-packs sold	**4,847**	5,958	10,839
Cost of point-product-sales	**476**	300	230
Cost of satellite air time and terminal units (Notes 20 and 22)	**199**	243	283
	5,522	6,501	11,352

Professional and Other Contracted Service Fees

	2006	2005	2004
		(in million pesos)	
Technical and consultancy fees (Note 20)	**1,909**	1,419	1,650
Contracted services	**948**	470	403
Legal and audit fees	**219**	508	132
Others	**73**	67	43
	3,149	2,464	2,228

Asset Impairment

	2006	2005	2004
		(in million pesos)	
Property, plant and equipment (Note 8)	**1,402**	26	365
Notes receivable (Note 12)	**346**	–	–
Intangibles (Note 11)	**50**	–	–
Investments in associates (Note 9)	**4**	–	1,047
Other assets	**17**	–	–
	1,819	26	1,412

Provisions

	2006	2005	2004
		(in million pesos)	
Doubtful accounts (Note 14)	**736**	2,251	3,955
Write-down of inventories to net realizable values (Note 15)	**211**	479	577
Onerous contracts and assessments (Notes 20, 22 and 23)	**38**	196	319
	985	2,926	4,851

6. Income Tax

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

	2006	2005
	(in million pesos)	
Net assets	**19,658**	15,457
Net liabilities	**402**	49

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

	2006	2005
	(in million pesos)	
Net assets		
Asset impairment	**5,432**	3,127
Net operating loss carryover, or NOLCO	**4,983**	3,926
Accumulated provision for doubtful accounts	**4,746**	5,085
Unrealized foreign exchange losses	**2,632**	6,885
Pension and other employee benefits	**2,568**	1,409
Unearned revenues	**2,076**	2,524
Derivative financial instruments	**1,878**	464
MCIT	**983**	526
Unamortized past service costs	**871**	1,032
Provision for unrealized assets	**732**	769
Accumulated write-down of inventories to net realizable values	**321**	337
Leases	**304**	153
Asset retirement obligation - net of capitalized asset	**191**	157
Executive stock option plan	**106**	104
Excess of fair value over cost of investment properties	**(77)**	(90)
Preferred stock subject to mandatory redemption	**(109)**	(1,034)
Intangibles and fair value adjustments on assets acquired	**(391)**	(483)
Capitalized taxes and duties	**(446)**	(516)
Capitalized foreign exchange differential	**(988)**	(1,721)

	2006	2005
	(in million pesos)	
Gain on debt exchange and debt restructuring transactions	**(1,650)**	(2,601)
Undepreciated capitalized interest charges	**(4,607)**	(4,664)
Others	**103**	68
	19,658	15,457
Net liabilities		
Unrealized foreign exchange gains	**(6)**	(49)
Excess of fair value over cost of investment properties	**(38)**	–
Intangible assets	**(357)**	–
Others	**(1)**	–
	(402)	(49)

Provision for corporate income tax consists of:

	2006	2005	2004
		(in million pesos)	
Current	**10,034**	8,583	7,354
Deferred	**(3,164)**	(4,447)	(2,381)
	6,870	4,136	4,973

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

	2006	2005	2004
		(in million pesos)	
Provision for corporate income tax at the applicable statutory tax rates	**14,766**	12,549	10,538
Tax effects of:			
Non-deductible expenses	**753**	204	1,252
Loss (income) subject to lower tax rate	**(208)**	6	58
Income subject to final tax	**(550)**	(496)	(201)
Loss (income) not subject to tax	**(2,359)**	283	(2,213)
Net movement in deferred income tax	**(5,532)**	(8,408)	(4,485)
Equity share in net loss (income) of investees	**–**	(2)	24
Actual provision for corporate income tax	**6,870**	4,136	4,973

Mabuhay Satellite and SubicTel are registered as Subic Bay Freeport Enterprises while ClarkTel is registered as a Clark Special Economic Zone Enterprise under Republic Act No. 9337, or R.A. 7227, otherwise known as the Bases Conversion and Development Act of 1992. As registrants, Mabuhay Satellite, SubicTel and ClarkTel are entitled to all the rights, privileges and benefits established thereunder including tax and duty-free importation of capital equipment and a special income tax rate of 5% of gross income, as defined in the R.A. 7227.

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

On October 31, 2006, the BOI approved ePLDT's application for pioneer status for its new projects which included *Vitro*™ value-added services and additional capacity of the Data Center, which entitles the company to another six-year income tax holiday incentive. The coverage period of the new ITH is yet to be disclosed by the BOI.

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

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

Vocativ is registered with the Philippine Economic Zone Authority, or PEZA, as an Ecozone Export Enterprise to develop and operate a call center business that serves overseas clients by providing customer relationship management services. As a registered enterprise, Vocativ is entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and an ITH for four years from start of commercial operations. After the ITH period, Vocativ is liable for a final tax, in lieu of all taxes after the expiration of its incentives. The final tax is computed at 5% of gross income less allowable deductions as defined under R.A. No. 7916, "The Special Economic Zone Act of 1995," and must be paid and remitted in accordance with the amendments contained in R.A. No. 8748, as follows: (a) 3% to the Philippine Government; and (b) 2% which will be directly remitted by the business establishments to the treasurer's office of the municipality or city where the enterprise is located.

On December 5, 2005, Vocativ received approval from PEZA for the adjustment of the start of commercial operations, effectively extending the ITH expiration to the end of March 2006. On June 30, 2006, PEZA approved an ITH extension for another year which effectively extends the ITH expiration to April 2007.

mySecureSign, Inc., or mSSI, is a wholly-owned subsidiary of ePLDT and is registered with the BOI as a new IT service firm in the field of services related to public key infrastructure on a pioneer status. Under such registration, mSSI enjoys, among other incentives, a six-year ITH from August 1, 2001 or the actual start of commercial operations, whichever comes first. mSSI started commercial operations on January 1, 2002.

Ventus is registered with the BOI as a new IT export service firm in the field of customer interaction center on a pioneer status. Under this registration, Ventus is entitled to certain tax incentives such as an ITH for six years starting March 2005. In relation to this, Ventus is required to comply with specific terms and conditions stated in the BOI registration.

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

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

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

In September 2006, PEZA approved SPi's application for registration as an ecozone information technology enterprise to provide IT enabled services with emphasis on the creation of electronic discovery, presentation of content in electronic information formats, data analysis, capture, abstracting and data processing, design, development and implementation of healthcare documentation solutions. As a registered enterprise, SPi is entitled to certain tax and non-tax incentives which include, among other things, tax and duty-free importations, exemption from local tax and an ITH for four years. After the ITH period, SPi is liable for a final tax, in lieu of all taxes after the expiration of its incentives. The final tax is computed at 5% of gross income less allowable deductions as defined under R.A. 7916, "The Special Economic Zone Act of 1995," and will be paid and remitted in accordance with the amendments contained in R.A. 8748, as follows: (a) 3% to the Philippine Government; and (b) 2% which will be directly remitted by the business establishments to the treasurer's office of the municipality or city where the enterprise is located.

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

Smart Broadband has three registered activities with the BOI on a pioneer status, namely: (i) a new operator of telecommunications systems (inter-exchange carrier for data services); (ii) new information technology service firm in the field of providing internet services; and (iii) a new operator of telecommunications facilities (nationwide broadband wireless access). Under the terms of these registrations, Smart Broadband is entitled to certain tax and non-tax incentives which include, among other things, an ITH for six years from February 2001, August 2001 and July 2005, respectively.

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

Consolidated tax incentives that we availed ourselves of for the years ended December 31, 2006, 2005 and 2004 amounted to Php142 million, Php235 million and Php2,208 million, respectively.

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

a. The regular corporate income tax rate for domestic corporations and resident/non-resident foreign corporations increased to 35% (from 32%) beginning November 1, 2005 and will be reduced to 30% beginning January 1, 2009. The regular corporate income tax rate is applied by multiplying the number of months covered by the new rate with the taxable income of the corporation during the period, divided by twelve months.

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

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

In 2006, the net movement in deferred tax assets primarily pertains to deferred tax assets recognized in relation to the benefit that would be derived from the disposal of certain Piltel assets with the expected lifting of a mortgage trust indenture, or MTI, restrictions resulting from the full repayment of Pitel's restructured debt on December 4, 2006. For further discussion, please see *Note 17 – Interest-bearing Financial Liabilities*.

Our deferred income tax assets have been recorded to the extent that such deferred tax assets are expected to be utilized against sufficient future taxable profit. We had unrecognized deferred tax assets of Php299 million and Php5,615 million largely pertaining to asset impairment as at December 31, 2006 and 2005, respectively.

Our consolidated unutilized NOLCO as at December 31, 2006 is as follows:

Year Incurred	Year Expiring	(in million pesos)
2004	2007	26
2005	2008	11,222
2006	2009	3,020
		14,268
Tax benefit		4,994
Unrecognized deferred income tax assets from NOLCO as at December 31, 2006		(11)
		4,983

Our consolidated MCIT as at December 31, 2006 is as follows:

Year Incurred	Year Expiring	(in million pesos)
2005	2008	484
2006	2009	499
		983

7. Earnings Per Common Share

The following table presents information necessary to calculate the earnings per common share:

	2006		2005		2004	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
			(in million pesos)			
Consolidated net income attributable to equity holders of PLDT	**35,116**	**35,116**	34,112	34,112	28,031	28,031
Dividends on preferred shares	**(455)**	**(455)**	(1,426)	(49)	(1,529)	(49)
Dividends on preferred stock subject to mandatory redemption charged to interest expense for the year	**–**	**–**	–	230	–	–
Accretion of preferred stock subject to mandatory redemption	**–**	**–**	–	1,233	–	–
Foreign exchange gain on preferred stock subject to mandatory redemption	–	**–**	–	(1,536)	–	–
Consolidated net income applicable to common shares	**34,661**	**34,661**	32,686	33,990	26,502	27,982

(in thousands, except per share amounts)

	2006		2005		2004	
Outstanding common shares at beginning of year	**180,789**	**180,789**	170,214	170,214	169,476	169,476
Effect of issuance of common shares during the year	**3,667**	**3,667**	1,855	1,855	252	252
Average incremental number of shares under ESOP during the year	**–**	**98**	–	94	–	155
Common shares equivalent of preferred shares deemed dilutive:						
Preferred Stock Series A to FF (Note 16)	–	–	–	2,617	–	3,305
Preferred Stock Series III (Note 16)	–	–	–	–	–	7,908
Preferred Stock Series VI (Note 17)	–	–	–	4,399	–	–
Preferred Stock Series VII (Note 17)	–	–	–	3,842	–	–
Weighted average number of common shares for the year	**184,456**	**184,554**	172,069	183,021	169,728	181,096
Earnings per common share	**Php187.91**	**Php187.81**	Php189.96	Php185.72	Php156.14	Php154.51

Dividends Declared For The Year Ended December 31, 2006

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**Total**
					(in million pesos)
Preferred Stock Subject to Mandatory Redemption					
Series V	February 27, 2006	March 17, 2006	April 15, 2006	Php4.675	1
	June 13, 2006	June 28, 2006	July 15, 2006	4.675	–
	August 28, 2006	September 27, 2006	October 15, 2006	4.675	1
	December 12, 2006	December 28, 2006	January 15, 2007	4.675	–
Series VI	February 27, 2006	March 17, 2006	April 15, 2006	US$0.09925	20
	June 13, 2006	June 28, 2006	July 15, 2006	0.09925	14
	August 28, 2006	September 27, 2006	October 15, 2006	0.09925	9
	December 12, 2006	December 28, 2006	January 15, 2007	0.09925	4
Series VII	February 27, 2006	March 17, 2006	April 15, 2006	JP¥10.179725	17
	June 13, 2006	June 28, 2006	July 15, 2006	10.179725	18
	August 28, 2006	September 27, 2006	October 15, 2006	10.179725	6
Charged to income					90
10% Cumulative Convertible Preferred Stock					
Series CC	January 31, 2006	February 28, 2006	March 31, 2006	Php1.00	17
Series DD	January 31, 2006	February 15, 2006	February 28, 2006	1.00	3
Series EE	March 28, 2006	April 27, 2006	May 31, 2006	1.00	–
Series A, I, R, W, AA and BB	July 11, 2006	August 1, 2006	August 31, 2006	1.00	128
Series B, F, Q, V and Z	August 8, 2006	September 1, 2006	September 29, 2006	1.00	90
Series E, K, O and U	August 28, 2006	September 27, 2006	October 31, 2006	1.00	45
Series C, D, J, T and X	October 2, 2006	October 26, 2006	November 29, 2006	1.00	58
Series G, N, P and S	November 7, 2006	December 7, 2006	December 29, 2006	1.00	26
Series H, L, M and Y	December 12, 2006	January 3, 2007	January 31, 2007	1.00	40
					407
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 31, 2006	February 23, 2006	March 15, 2006	–	12
	May 9, 2006	May 26, 2006	June 15, 2006	–	12
	July 11, 2006	August 10, 2006	September 15, 2006	–	13
	November 7, 2006	November 24, 2006	December 15, 2006	–	12
					49
Common Stock	February 27, 2006	March 20, 2006	April 20, 2006	Php28.00	5,080
	August 8, 2006	August 21, 2006	September 21, 2006	50.00	9,379
					14,459
Charged to retained earnings					14,915

* *Dividends are declared based on total amount paid up.*

Dividends Declared After December 31, 2006

	Date			Amount	
Class	**Approved**	**Record**	**Payable**	**Per Share**	**Total**

					(in million pesos)
10% Cumulative Convertible Preferred Stock					
Series CC	January 30, 2007	February 28, 2007	March 30, 2007	Php1.00	16
Series DD	January 30, 2007	February 15, 2007	February 28, 2007	1.00	3
					19
Cumulative Non-Convertible Redeemable Preferred Stock					
Series IV*	January 30, 2007	February 23, 2007	March 15, 2007		12
					31
Common Stock	March 6, 2007	March 20, 2007	April 20, 2007	Php50.00	9,428
					9,459

* *Dividends are declared based on total amount paid up.*

8. Property, Plant and Equipment

This account consists of:

	Cable and wire facilities	Central office equipment	Cellular facilities	Buildings	Vehicles, furniture, and other network equipment	Communications satellite	Information origination/ termination equipment	Land and land improvements	Property under construction	Total
					(in million pesos)					
At December 31, 2005										
Cost	107,781	82,353	61,031	19,739	27,923	10,560	7,918	2,438	11,794	331,537
Accumulated depreciation and amortization	(41,262)	(46,259)	(29,410)	(5,196)	(21,056)	(6,083)	(5,048)	(249)	–	(154,563)
Net book value	66,519	36,094	31,621	14,543	6,867	4,477	2,870	2,189	11,794	176,974
Year Ended December 31, 2006										
Net book value at beginning of year	66,519	36,094	31,621	14,543	6,867	4,477	2,870	2,189	11,794	176,974
Additions/Transfers – net	4,900	3,277	6,562	601	2,193	–	1,351	230	1,084	20,198
Disposals/Retirements	(38)	(158)	(103)	(71)	99	–	(2)	(4)	(223)	(500)
Translation differences charged directly to cumulative translation adjustments	–	(35)	–	(7)	(73)	(311)	–	–	–	(426)
Acquisition through business combination	–	(13)	–	273	903	–	1	20	31	1,215
Reclassification	2	91	(99)	8	(2)	–	–	–	–	–
Impairment losses recognized during the year	–	(3)	–	(5)	(3)	(1,391)	–	–	–	(1,402)
Depreciation and amortization	(5,356)	(12,941)	(6,459)	(1,189)	(4,406)	(619)	(880)	(19)	–	(31,869)
Net book value at end of year	66,027	26,312	31,522	14,153	5,578	2,156	3,340	2,416	12,686	164,190
At December 31, 2006										
Cost	112,621	84,604	64,411	20,388	31,039	9,834	9,140	2,685	12,686	347,408
Accumulated depreciation and amortization	(46,594)	(58,292)	(32,889)	(6,235)	(25,461)	(7,678)	(5,800)	(269)	–	(183,218)
Net book value	66,027	26,312	31,522	14,153	5,578	2,156	3,340	2,416	12,686	164,190

Substantially all our telecommunications equipment is purchased from outside the Philippines. Our significant sources of financing for such purchases are foreign loans requiring repayment in currencies other than Philippine pesos, principally in U.S. dollars, see *Note 17 – Interest-bearing Financial Liabilities*. Interest, using an average capitalization rate of 9%, and net foreign exchange losses capitalized to property, plant and equipment qualified as borrowing costs for the years ended December 31, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
		(in million pesos)	
Interest	**549**	504	595
Foreign exchange gains (losses)	**521**	(607)	74

As at December 31, 2006, 2005 and 2004, the undepreciated capitalized net foreign exchange losses which qualified as borrowing costs amounted to Php2,646 million, Php4,276 million and Php5,528 million, respectively.

The consolidated useful lives of the assets are estimated as follows:

Buildings	25 years
Central office equipment	15 – 20 years
Cable and wire facilities	10 – 25 years
Communications satellite	15 years
Information origination and termination equipment	5 – 15 years
Land improvements	10 years
Vehicles, furniture and other network equipment	3 – 10 years
Cellular facilities	3 – 10 years

We recognized additional depreciation and amortization charges of Php8,624 million, Php7,806 million and Php2,297 million in 2006, 2005 and 2004, respectively, due to a change in the estimated useful lives of certain of our network assets owing to continuing network upgrade and expansion in 2005.

Asset Impairment Review

Piltel carries out annual impairment tests on its fixed line assets based on the net present value, or NPV, of future cash flows from the continued use of these assets. For the impairment review in 2006, a discount factor of 6.25% on a pre-tax basis was used for both E.O. 109 and RTS, applied on cash flow projections from 2007 until such year when the assets are fully depreciated. Cash flow assumptions for E.O. 109 averaged Php64 million per year from 2007 to 2017 and Php271 million per year for RTS from 2007 to 2013. The resulting NPV of the total cash flow projections was higher than the carrying value of both the E.O. 109 and RTS assets.

Management believes that due to Mabuhay Satellite's difficulty in generating cash flows with the satellite nearing its end-of-life and other events affecting its business, Mabuhay Satellite's Agila II transponders is considered impaired. This impairment review is based on the NPV of future cash flows from the continued use of this asset using the discount factor of 10% as applied on cash flow projections from 2007 until 2010. An impairment loss of Php1,391 million was applied to the carrying value of this satellite as at December 31, 2006.

Property, plant and equipment include the following amounts for capitalized leases as at December 31, 2006 and 2005:

	2006			2005		
	Central office equipment	**Vehicles, furniture and other network equipment**	**Total**	Central office equipment	Vehicles, furniture and other network equipment	Total
			(in million pesos)			
Cost	**455**	**1,082**	**1,537**	361	1,039	1,400
Less accumulated depreciation	**352**	**908**	**1,260**	293	719	1,012
	103	**174**	**277**	68	320	388

The following table summarizes all changes to the liabilities on asset retirement obligations as at December 31, 2006 and 2005:

	2006	2005

	(in million pesos)	
Asset retirement obligations at beginning of year	**752**	638
Accretion expenses	**87**	79
Additional liability recognized during the year	**45**	63
Settlement of obligations	**(53)**	(28)
Asset retirement obligations at end of year (Note 18)	**831**	752

9. Investments in Associates

This account consists of:

	2006	2005
	(in million pesos)	
ACeS International Limited	**1,614**	1,614
Mabuhay Space Holdings Limited	**937**	1,013
Stradcom International Holdings, Inc.	**616**	616
Philweb Corporation	**712**	–
BayanTrade Dotcom, Inc.	**97**	97
ePDS, Inc.	**6**	6
	3,982	3,346
Less accumulated impairment losses and equity share in net losses of associates	**3,346**	3,331
Total cost and accumulated impairment losses and equity share in net losses of associates	**636**	15

Investment of ACeS Philippines in ACeS International Limited, or AIL

As at December 31, 2006, ACeS Philippines had a 20% investment in AIL, a company incorporated under the laws of Bermuda. AIL owns the Garuda I Satellite and the related system control equipment in Batam, Indonesia.

In December 1998, AIL and its 95% owned subsidiary, PT Asia Cellular Satellite, entered into an Amended and Restated Credit Agreement, or Amended Agreement, to amend the original Credit Agreement entered into by PT Asia Cellular Satellite and its bank creditors in 1997. Under the Amended Agreement, AIL has, among other things, assigned to the banks as collateral all of its tangible properties, including the Garuda I Satellite, the system control facilities and system control equipment. On September 30, 2002, PT Asia Cellular Satellite, AIL, as guarantor, P.T. Bank Internasional Indonesia, as security agent, and various other banks signed a rescheduling agreement, which amended the terms of the Amended and Restated Credit Agreement dated December 29, 1998, moving the principal repayment dates to agreed periods with the final maturity date on January 31, 2012, see *Note 20 – Related Party Transactions*.

AIL has incurred recurring significant operating losses, negative operating cash flows, and significant levels of debt. The financial condition of AIL was partly due to the National Service Providers', or NSPs, inability to generate the amount of revenues originally expected as the growth in subscriber numbers has been significantly lower than budgeted. These factors raise substantial doubt about AIL's ability to continue as a going concern. On this basis, we recognized a full impairment provision in respect of our investment in AIL amounting to Php1,614 million in 2003.

On September 1, 2006, AIL and PT Asia Cellular Satellite signed a Term Sheet, or Banks Term Sheet, with a majority of the banks that will be used as the basis for further good faith negotiations between the parties thereto with a view to entering into an agreement further amending the Amended and Restated Credit Agreement with AIL's bank creditors.

Under the Banks Term Sheet, a majority of the banks agreed, subject to satisfaction of certain conditions, among other things, to amend the Founder NSP Air Time Purchase Agreement and to re-denominate AIL debt into non-interest-bearing subordinated convertible bonds maturing in 2015; to amortize a senior term loan with a final maturity on August 1, 2013 and a junior term loan with payments on August 1, 2014 and 2015.

Pursuant to the business collaboration arrangements between AIL and Inmarsat, on September 1, 2006, Inmarsat made the first payment of US$4 million to AIL which was used to pay principal and interest payable to the banks in accordance with the Banks Term Sheet.

On February 1, 2007, PLDT (through ACeS Philippines) signed an agreement to purchase LMGT Holdings (ACeS), Inc., or LMGT, and Martin Marietta Overseas Corporation's, or MMOC, 50% equity and debt interest in AIL, for US$750,000 in accordance with a notice of proposed transfer issued by LMGT dated December 22, 2006 pursuant to a right of first refusal under the AIL Shareholders' Agreement.

Investment of Mabuhay Satellite in Mabuhay Satellite Space Holdings Limited, or MSHL

In 1996, Mabuhay Satellite entered into a Joint Venture Agreement, or JVA, with Space Systems/Loral Inc., or SS/L, to form MSHL for the purpose of providing high-power Ku-Band satellite transmission services using the payload which was added by SS/L to the Agila II Satellite. Under the terms of the JVA, SS/L is required to convey title to the additional payload service to MSHL in consideration for SS/L's 35% equity interest in MSHL, and Mabuhay Satellite is required to pay SS/L US$19 million for a 65% equity interest in MSHL.

In 2000, SS/L filed a Notice of Default and Termination against Mabuhay Satellite arising from the latter's alleged failure to amicably resolve its unpaid obligation to SS/L under the JVA. In 2002, the arbitration panel handed down its decision and provided for payment by Mabuhay Satellite to SS/L of the principal amount of US$10 million plus accrued interest at 9% per annum. On June 30, 2003, Mabuhay Satellite and SS/L concluded a US$15 million settlement agreement under which Mabuhay Satellite leased two transponders under a transponder agreement on a life-term basis to SS/L and offset the lease charges due from SS/L and its receivables from Loral Skynet Network Services, Inc. (formerly known as the Loral Cyberstar, Inc.), among other things, for a full and final settlement of the arbitration decision. The agreement was subsequently approved by Mabuhay Satellite's creditors in March 2004.

In accordance with the settlement agreement, Mabuhay Satellite and SS/L shall proceed to dissolve the joint venture under a separate agreement, for which each of the parties will receive title over a number of transponders owned by the joint venture in proportion to their respective interests. On the basis of the joint venture dissolution, we recognized an impairment provision in respect of our investment in MSHL of Php431 million in 2004.

Investment of ePLDT in Stradcom International Holdings, Inc., or SIHI

ePLDT has a 22.5% interest in convertible securities of SIHI, the parent company of Stradcom Corporation, which has an existing concession agreement with the Philippine Government for the modernization of the Philippine Land Transportation Office, including the computerization of driver's license issuance, vehicle registration and traffic adjudication systems. SIHI has been incurring losses from the start of operations due to Stradcom Corporation's continuous losses and recurring excess of current liabilities over current assets. On this basis, we recognized an impairment provision in respect of our investment in SIHI of Php616 million in 2004.

Stradcom Corporation is currently undertaking the issuance of Asset-Backed Bonds amounting to Php1.6 billion intended for debt refinancing and general corporate purposes, including working capital and investments.

Investment of ePLDT in Philweb Corporation, or Philweb

In May 2006, ePLDT subscribed newly issued common shares of Philweb, an internet-based gaming company, equivalent to 20% of the total outstanding capital stock of Philweb at a price of Php0.020 per share or an aggregate amount of Php502 million. Of the total subscription price, Php427 million was paid by ePLDT on the closing date. The portion of the unpaid subscription price amounting to Php25 million will be paid by ePLDT at the same time as the Philweb majority stockholders pay the remaining unpaid portion of the subscription pursuant to a general call on subscription to be made by Philweb's board of directors. The balance of Php50 million will be paid upon the lapse of certain post-closing price adjustment periods. The unpaid subscription of Php75 million was recorded as part of accrued expenses and other current liabilities in the balance sheet.

In October 2006, ePLDT acquired an additional 8,037,692,308 shares of Philweb at a price of Php0.026 per share or an aggregate amount of Php209 million. This represents an additional 6.2% of the outstanding shares of Philweb, raising ePLDT's total equity stake to 25.5% as at December 31, 2006.

Philweb is primarily engaged in internet-based gaming, through its appointment as Principal Technology Service Provider under the Marketing Consultancy Agreement for Internet Sports Betting and Internet Casino with the Philippine Amusement and Gaming Corporation, or PAGCOR. As of the end of December 2006, Philweb offers Internet Sports Betting in over 230 PAGCOR Internet Sports Betting Stations and over 40 Internet Casino Stations nationwide.

Investment of ePLDT in BayanTrade Dotcom, Inc., or BayanTrade

BayanTrade was incorporated and registered with the SEC on August 8, 2000 to provide: (a) a business-to-business electronic purchasing marketplace to link buyers and suppliers of goods services over the Internet; (b) electronic catalogue purchasing facilities over the Internet to buyers and suppliers; (c) link-up with similar horizontal markets and vertical markets across the Asia-Pacific Region and the world; and (d) facilitating services incidental to the business. BayanTrade is an e-procurement joint venture established together with six of the Philippines' leading conglomerates. ePLDT's initial shareholding in BayanTrade was 20.5%, which was subsequently diluted to 19.17% in August 2004 due to an equity call to which ePLDT did not subscribe.

In September 2005, ePLDT received 4,794,615 bonus warrants from BayanTrade which entitles ePLDT to purchase 2,794,615 common shares at a price of Php0.50 per share at any time on or before August 31, 2010.

Investment of ePLDT in ePDS, Inc., or ePDS

On June 30, 2003, ePLDT signed a joint venture agreement with DataPost Pte Ltd., or DataPost, a subsidiary of Singapore Post, and G3 Worldwide ASPAC, or Spring, pursuant to which the parties formed ePDS, a bills printing company which does laser printing and enveloping services for statements, bills and invoices, and other value-added services for companies in the Philippines. ePLDT has a 50% interest in ePDS, while DataPost has a 30% interest. Spring, the largest international mail services provider, owns the remaining 20%. ePDS has an initial paid-up capital of Php11 million.

In October 2005, ePDS' Board of Directors approved the declaration of a 100% stock dividend on its common stock equivalent to Php11 million. The stock dividends were issued from the increase in authorized capital stock of ePDS which was approved by the SEC in June 2006.

The following table presents summarized financial information in conformity with PFRS for equity investees for which we have significant influence as at December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004.

	2006	2005
	(in million pesos)	
Noncurrent assets	**1,333**	1,388
Current assets	**1,122**	652
Capital deficiency	**(9,618)**	(10,787)
Noncurrent liabilities	**10,029**	11,242
Current liabilities	**2,044**	1,585

	2006	2005	2004
		(in million pesos)	
Revenues	**1,194**	774	1,299
Revenues less cost of revenues	**654**	615	1,013
Expenses	**1,066**	472	592
Net (loss) income	**(412)**	471	(19)

10. Investment Properties

	2006	2005
	(in million pesos)	
Balance at beginning of year	**701**	743
Net loss from fair value adjustments	**(2)**	(27)
Disposals	**(112)**	(15)
Balance at end of year	**587**	701

Investment properties are stated at fair values, which have been determined based on the latest valuations performed by an independent firm of appraisers, which is an industry specialist in valuing these types of investment properties. The valuation undertaken was based on an open market value, supported by a market evidence in which assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's-length transaction at the date of valuation, in accordance with international valuation standards.

11. Goodwill and Intangible Assets

Movements in goodwill and intangible assets during the periods are as follows:

	2006			2005		
	Goodwill	**Intangible assets**	**Total**	Goodwill	Intangible assets	Total
			(in million pesos)			
Cost:						
Balance at beginning of year	**1,942**	**1,991**	**3,933**	1,934	1,991	3,925
Additions during the year	**8,498**	**1,540**	**10,038**	8	–	8
Translation adjustments	**(303)**	**(75)**	**(378)**	–	–	–
Balance at end of year	**10,137**	**3,456**	**13,593**	1,942	1,991	3,933
Accumulated amortization and impairment:						
Balance at beginning of year	**438**	**446**	**884**	438	181	619
Amortization during the year	**–**	**450**	**450**	–	265	265
Impairment during the year	**–**	**50**	**50**	–	–	–
Translation adjustments	**–**	**(5)**	**(5)**	–	–	–
Balance at end of year	**438**	**941**	**1,379**	438	446	884
Net balance	**9,699**	**2,515**	**12,214**	1,504	1,545	3,049

Smart's Acquisition of Wolfpac

Intangible assets include a technology application with an estimated useful life of three years arising from the acquisition of Wolfpac and certain intangible assets arising from the acquisition of Smart Broadband in 2004. In December 2005, an independent appraiser completed the valuation work for certain of Smart Broadband's intangible assets and determined goodwill amounting to Php1,416 million at the time of acquisition. Smart Broadband's intangible asset composition and estimated useful lives were revised as follows:

Licenses	18 years
Spectrum	15 years
Technology	5 years
Customer base	3 years

ePLDT's Acquisition of Level Up!

On February 16, 2006, ePLDT entered into a sale and purchase agreement to acquire 60% equity interest of Level Up!, a leading publisher of online games in the Philippines, for a total consideration of Php383 million. Post-closing conditions were completed on April 30, 2006. In August 2006, the Shareholders Agreement and Share Purchase Agreement between ePLDT and Level Up! were amended to reflect the removal of earn-out and price adjustment provisions thereby fixing the acquisition for 60% of Level Up! at the aforementioned original purchase price of US$7 million. As at purchase date, the net cash outflow on acquisition was Php350 million, representing cash payments of Php383 million, net of cash acquired from Level Up! of Php35 million, and incidental cost of Php2 million.

The purchase consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition. The fair values of the identifiable acquired assets and liabilities of Level Up! as at April 30, 2006, are as follows:

	(in million pesos)
Property, plant and equipment	129
Goodwill	597
Intangible assets	185
Other noncurrent assets	7
Cash and cash equivalents	35
Trade and other receivables	8
Inventories and supplies	1
Prepayments and other current assets	20
	982
Deferred tax liabilities	60
Capital lease liabilities	49
Accounts payable	21
Accrued expenses and other current liabilities	66
Unearned revenues	38
Due to related parties	110
	344
Minority interest	255
Net assets acquired	383

Intangible assets, as determined by an independent appraiser, pertaining to Level Up!'s game license agreements for Ragnarok, ROSE Online, RF Online and Freestyle amounted to Php185 million with an estimated remaining useful life of 5.67 years. Level Up! was accounted for in the consolidated financial statements using the purchase method of accounting, which resulted in goodwill amounting to Php597 million in 2006. Goodwill pertains to the assembled workforce and other unidentified intangible assets that did not qualify as intangible assets under *PAS 38, "Intangible Assets"*. As at December 2006, ePLDT has provided impairment in value of its intangble assets in Level Up! amounting to Php50 million, representing a write-down of such intangible assets to recoverable amounts using the value in use approach. Value in use was based on the discounted cash flow projections using the most recent financial forecast approved by our management.

ePLDT's Acquisition of SPi

On July 10, 2006, ePLDT entered into a sale and purchase agreement to acquire 100% equity interest of SPi and its direct and indirect Philippine and offshore subsidiaries for a total cash consideration of US$136 million. As part of the transaction, ePLDT also acquired a US$7 million debt owed by SPi to the seller at face value. In addition, ePLDT advanced US$16 million to SPi in order for SPi to fully pay its debt owed to DBS Bank Singapore. As at December 31, 2006, the net cash outflow on acquisition was Php7,121 million, representing cash payments of Php7,116 million, net of cash acquired from SPi of Php85 million, and incidental cost of Php90 million.

SPi is the second largest pure-play BPO Company and the ninth largest independent BPO service provider worldwide. It has operations in 19 locations in North America, Europe and Asia. Its customers include Fortune 100 companies, non-profit organizations and government agencies in the financial services, healthcare, legal and publishing markets.

The purchase consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition. The fair values of the identifiable acquired assets and liabilities of SPi at the time of acquisition are as follows:

	In U.S. Dollar	In Php Equivalent[1]
	(in millions)	
Property, plant and equipment	19	1,002
Goodwill	130	6,787
Intangible assets	18	956
Other noncurrent assets	1	52
Cash and cash equivalents	2	85
Trade and other receivables	41	2,162
Prepayments and other current assets	2	95
	213	11,139
Deferred income tax liabilities	7	388
Other noncurrent liabilities	1	44
Accounts payable	58	3,048
Short-term borrowings	3	131
Accrued expenses and other current liabilities	8	412
	77	4,023
Net assets acquired	136	7,116

[1] *Converted to Philippine Peso using the exchange rate at the time of purchase.*

Intangible assets, as determined by an independent appraiser, amounted to Php956 million relating to SPi's customer relationships and self-developed software with estimated remaining useful lives of seven and four years, respectively. Intangible assets were fully consolidated to ePLDT.

SPi was accounted for in the consolidated financial statements using the purchase method of accounting, which resulted in goodwill amounting to Php6,787 million. Goodwill pertains to the assembled workforce of SPi and other unidentified intangible assets that did not qualify as intangible assets under PAS 38.

ePLDT's Acquisition of CyMed

On August 11, 2006, ePLDT, through its direct subsidiary SPi, entered into a sale and purchase agreement to acquire 100% equity interest of CyMed for an aggregate purchase price of US$35 million, inclusive of certain debt obligations. CyMed is a leading medical transcription company based in Richmond, Virginia, United States of America (USA). It provides medical transcription services and technology products through proprietary processes based on Six Sigma quality management principles. The company currently serves over 400 healthcare systems, independent hospitals, and government-affiliated clinics across the USA. CyMed employs 650 U.S.-based staff members and has offices in the states of Virginia, Tennessee and Ohio. As at August 15, 2006, the net cash outflow related on acquisition was Php1,774 million, representing cash payments of Php1,831 million, net of cash acquired from CyMed of Php57 million. Total cash payments include purchase price consideration of Php1,715 million, working capital amounts and other net debt adjustments totaling Php102 million and incidental cost of Php13 million.

The purchase consideration has been allocated to the assets and liabilities on the basis of fair values at the date of acquisition. The fair values of the identifiable acquired assets and liabilities of CyMed at the time of acquisition, assessed to be equal to their book values, are as follows:

	In U.S. Dollar	In Php Equivalent[1]
	(in millions)	
Property, plant and equipment	1	39
Goodwill	27	1,223
Intangible assets	7	336
Deferred income tax assets	1	30
Notes receivable	2	108
Cash and cash equivalents	1	57
Trade and other receivables	3	148
Prepayments and other current assets	1	20
	43	1,961
Interest-bearing financial liabilities – net of current portion	4	58
Accounts payable and other current liabilities	2	72
	6	130
Net assets acquired	37	1,831

[1] *Converted to Philippine Peso using the exchange rate at the time of purchase.*

CyMed was accounted for in the consolidated financial statements using the purchase method of accounting, which resulted in goodwill amounting to Php1,223 million. Goodwill pertains to assembled workforce of CyMed and other unidentified intangible assets that did not qualify as intangible assets under PAS 38.

Intangible assets pertaining to Cymed's customer relationship was determined at Php336 million with an estimated useful life of five years. Intangible assets was valued by an independent appraiser.

Other intangible assets consist of:

	December 31, 2006			December 31, 2005		
	Gross		Net	Gross		Net
	Carrying Amount	Accumulated Depreciation		Carrying Amount	Accumulated Depreciation	
			(in million pesos)			
Customer list	1,332	(195)	1,137	109	(48)	61
Spectrum	1,205	(187)	1,018	1,205	(107)	1,098
Technology application	601	(471)	130	544	(281)	263
Licenses	318	(88)	230	133	(10)	123
	3,456	(941)	2,515	1,991	(446)	1,545

The future amortization of other intangible assets as at December 31, 2006 are as follows:

	(in million pesos)
2007	383
2008	359
2009	344
2010	306
2011	237
2012 and onwards	886
Balance at end of year	2,515

Impairment Testing of Goodwill

Goodwill from Smart Broadband Acquisition

The test for recoverability of Smart's goodwill was applied to an asset group, representing the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

Although revenue streams may be segregated between Smart and Smart Broadband through subscribers availing themselves of their respective cellular and wireless broadband services, the cost items and cash flows are difficult to carve out, largely due to the significant portion of shared and common-used networks/platforms. In the case of Smart Broadband, it provides broadband wireless access to its subscribers using Smart's cellular base stations, fiber optic and IP backbone. With the common use of wireless assets with Smart in providing wireless services, the lowest asset group for Smart Broadband for which cash flows could be clearly identified from other groups of assets will be Smart's wireless business segment.

Our wireless business segment has been our largest revenue and cash flow contributor since 2003. As such, there is no impairment of our wireless business segment. As at December 31, 2006, the recoverable amount of this segment is determined on the basis of value in use calculations using cash flow projections based on the financial budgets approved by Smart's Management covering a 5-year period from 2007 to 2011. The pre-tax discount rate applied to cash flow projections is 10.6% and cash flows beyond the 5-year period are determined using a 2.5% growth rate that is the same as the long-term average growth rate for the telecommunications industry.

The calculation of value in use for Smart's wireless business segment was based on the following assumptions: (a) usage revenues - usage revenues for 2007 were based on the annualized actual year-to-date results available at the time the budget was prepared in 2006; (b) usage revenues were assumed to grow at an average rate of 5% per annum from 2007 to 2011; (c) average capital expenditures per year were assumed at Php8.6 billion from 2007 to 2011; (d) the discount rate used was the weighted average cost of capital; and (e) the growth rate used for cash flows beyond the budget period was based on published industry research.

Goodwill from SPi Acquisition and its Subsidiary, Cymed

The goodwill acquired through the SPi and CyMed transactions was allocated for impairment testing to each of the cash generating units of those businesses namely: healthcare, litigation and publishing.

As at December 31, 2006, we determined that there would be no impairment loss recognized for each of the cash generating units since the recoverable amount exceeded the carrying amount of the individual assets. The recoverable amount of goodwill was determined using the value in use approach. Value in use was based on the cash flow projections of the most recent financial budgets/forecasts approved by management, which management believes are reasonable and are management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.

In determining the appropriate discount rate to be applied, our weighted average cost of capital was used and adjusted for the: (a) difference in currency; and (b) specific risks associated with the assets or business of a cash-generating unit.

Management assessed the reasonableness of the assumptions by examining the causes of differences between actual 2006 cash flow and budgeted/projected cash flows, with a particular emphasis on the observed trends towards the last quarter of 2006.

12. Notes Receivable

Investment of ePLDT in Debt Securities of Technology Support Services, Inc., or TSSI (formerly First Advance Multi-Media Entertainment Corp., or FAME)

On June 1, 2004, ePLDT and FAME entered into an agreement whereby ePLDT granted a seven-year zero-coupon loan to FAME amounting to US$3.1 million. Based on agreement, upon maturity of the loan, which is at the end of seven years from issuance, ePLDT may require FAME to redeem or pay the loan at a redemption value amounting to US$6.1 million. At any time during the life of the outstanding loan, ePLDT may convert the loan into 20% of the total outstanding capital stock of FAME.

On August 20, 2004, FAME changed its corporate name to TSSI.

On September 14, 2004, ePLDT entered into a second agreement with TSSI whereby ePLDT granted another seven-year zero coupon loan to TSSI amounting to US$3.1 million with the same terms and features as the first loan. As at December 31, 2006, the aggregate loans of ePLDT to TSSI amounted to US$6.2 million.

TSSI has been incurring losses from the start of operations due to delays in its projects. On this basis, we recognized a full impairment provision in respect of our notes receivable from TSSI amounting to Php346 million.

13. Cash and Cash Equivalents

This account consists of:

	2006	2005
	(in million pesos)	
Cash on hand and in banks	**3,416**	6,496
Temporary cash investments	**13,454**	23,563
	16,870	30,059

Cash in banks earns interest at prevailing bank deposit rates. Temporary cash investments are made for varying periods of up to two months depending on our immediate cash requirements, and earn interest at the prevailing short-term deposit rates. Due to the short-term nature of such transactions, the carrying value approximates the fair value of our temporary cash investments.

14. Trade and Other Receivables

This account consists of receivables from:

	2006	2005
	(in million pesos)	
Customers and carriers	**25,349**	25,222
Others (Notes 20, 22 and 23)	**1,579**	1,159
	26,928	26,381
Less allowance for doubtful accounts	**16,770**	18,525
	10,158	7,856

Movements in the allowance for doubtful accounts are as follows:

	2006	2005	2004
		(in million pesos)	
Balance at beginning of year	**18,525**	18,070	14,307
Provisions for the year (Note 5)	**736**	2,251	3,955
Business combinations	**71**	–	–
Translation adjustments	**(24)**	(16)	–
Reversals	**(654)**	(11)	–
Write-offs	**(1,884)**	(1,769)	(192)
Balance at end of year	**16,770**	18,525	18,070

Receivables from carriers represent receivables arising from interconnection agreements with other telecommunications carriers. The aforementioned receivable balances are shown net of related payables to the same telecommunications carriers because an established right of offset exists.

On October 10, 2002, PLDT entered into a Receivables Purchase Deed, or RPD, with a foreign financial institution, or the Purchaser, under which PLDT agreed (1) to sell its receivables from certain eligible foreign carriers for an advance payment of US$50 million, of which US$3 million and US$20 million remained outstanding as at December 31, 2006 and 2005, respectively, and (2) to service, administer and collect the receivables on behalf of the Purchaser. Under the RPD, the Purchaser has no recourse against PLDT should an eligible carrier fail or refuse to settle the assigned/purchased receivables, except when PLDT commits a breach of its representations and warranties under the RPD.

Sale of receivables under the RPD amounted to US$6 million (Php272 million) and US$11 million (Php586 million) for the years ended December 31, 2006 and 2005, respectively. Loss on sale of receivables under the RPD amounted to US$0.5 million (Php27 million) for the year ended December 31, 2006 and US$1 million (Php75 million) for the years ended December 31, 2005 and 2004.

15. Inventories and Supplies

This account consists of:

	2006	2005
	(in million pesos)	
Terminal and cellular phone units:		
At net realizable value	**556**	806
At cost	**719**	1,024
Spare parts and supplies:		
At net realizable value	**513**	493
At cost	**1,397**	1,376
Others:		
At net realizable value	**161**	249
At cost	**161**	249
At lower of cost or net realizable value	**1,230**	1,548

16. Equity

The movement of PLDT's capital accounts for the years ended December 31, 2004, 2005 and 2006 are as follows:

	Preferred Stock – Php10 par value per share					**Common Stock –** Php5 par value per share	
	Series A to FF	**III**	**IV**	**Total Preferred Stock**			
	No. of Shares				**Amount**	**No. of Shares**	**Amount**
				(in millions)			
Authorized				823	Php8,230	234	Php1,170
Outstanding							
Balance at January 1, 2004	410	5	36	451	Php4,505	169	Php847
Issuance	1	–	–	1	9	–	2
Conversion	(2)	–	–	(2)	(17)	1	2
Balance at December 31, 2004	409	5	36	450	Php4,497	170	Php851
Balance at January 1, 2005	409	5	36	450	Php4,497	170	Php851
Issuance	–	–	–	–	3	1	2
Conversion	(2)	(5)	–	(7)	(67)	10	51
Balance at December 31, 2005	407	–	36	443	Php4,433	181	Php904
Balance at January 1, 2006	407	–	36	443	Php4,433	181	Php904
Issuance	–	–	–	–	2	–	–
Conversion	(1)	–	–	(1)	(11)	7	38
Balance at December 31, 2006	406	–	36	442	Php4,424	188	Php942

Preferred Stock

The preferred stock is non-voting, except as specifically provided by law, and is preferred as to liquidation.

The Series A to FF 10% Cumulative Convertible Preferred Stocks earn cumulative dividends at an annual rate of 10%. After the lapse of one year from the last day of the year of issuance of a particular series of 10% Cumulative Convertible Preferred Stock, any holder of such series may convert all or any of the shares of 10% Cumulative Convertible Preferred Stock held by him into fully paid and non-assessable shares of Common Stock of PLDT, at a conversion price equivalent to 10% below the average of the high and low daily sales price of a share of Common Stock on the PSE, or if there have been no such sales on the PSE on any day, the average of the bid and the asked prices of a share of Common Stock of PLDT at the end of such day on such Exchange, in each such case averaged over a period of 30 consecutive trading days prior to the conversion date, but in no case shall the conversion price be less than the price set by the Board of Directors which, as at December 31, 2006, was Php5.00 per share. The number of shares of Common Stock issuable at any time upon conversion of one share of the subscriber investment plan, or SIP, or the 10% Cumulative Convertible Preferred Stock is determined by dividing Php10.00 by the then applicable conversion price.

In case the shares of Common Stock at anytime outstanding are subdivided into a greater or consolidated into a lesser number of shares, then the minimum conversion price per share of Common Stock will be proportionately decreased or increased, as the case may be, and in the case of a stock dividend, such price will be proportionately decreased, provided, however, that in every case the minimum conversion price shall not be less than the par value per share of Common Stock. In the event the relevant effective date for any such subdivision or consolidation of shares or stock dividend occurs during the period of 30 trading days preceding the presentation of any shares of 10% Cumulative Convertible Preferred Stock for conversion, a similar adjustment will be made in the sales prices applicable to the trading days prior to such effective date utilized in calculating the conversion price of the shares presented for conversion.

In case of any other reclassification or change of outstanding shares of Common Stock, or in case of any consolidation or merger of PLDT with or into another corporation, the Board of Directors shall make such provisions, if any, for adjustment of the minimum conversion price and the sales price utilized in calculating the conversion price as the Board of Directors, in its sole discretion, shall be deemed appropriate.

At PLDT's option, the Series A to FF 10% Cumulative Convertible Preferred Stocks are redeemable at par value plus accrued dividends five years after the year of issuance.

On December 6, 2005, the Board of Directors designated 100,000 shares of serial preferred stock as Series GG 10% Cumulative Convertible Preferred Stock for issuance throughout 2006.

On January 30, 2007, the Board of Directors designated 150,000 shares of serial preferred stock as Series HH 10% Cumulative Preferred Stock for issuance up to December 31, 2009.

Confirmation of exemption of SIP Series FF, GG and HH under Section 10.2 of the Securities Regulation Code is still pending with the SEC.

On October 24, 2005, PLDT issued to JPMorgan, as depositary, and to the holders of the Series III Convertible Preferred Stock a notice of mandatory conversion of all of its outstanding 4,616,200 shares of Series III Convertible Preferred Stock into shares of PLDT Common Stock. The conditions for mandatory conversion under the terms of the Series III Preferred Stock have been satisfied, including: (i) that the average closing price of PLDT's ADSs for the 30-day period ending seven days prior to the date in which notice of the mandatory conversion was given was above US$29.19 a share; (ii) that there were no dividends in arrears on any shares of the Series III Convertible Preferred Stock; and (iii) that PLDT had sufficient distributable reserves to pay the fixed preferential dividends on the shares of Series III Convertible Preferred Stock, calculated down to and including the mandatory conversion date.

In November 2005, PLDT issued 710,891 shares of common stock on account of the voluntary conversion of 415,023 shares of Series III Convertible Preferred Stock.

As at December 19, 2005, as a result of PLDT's issuance of a notice of mandatory conversion, all of the outstanding shares of Series III Convertible Preferred Stock were voluntarily and mandatorily converted into shares of PLDT Common Stock wherein each share of Series III Convertible Preferred Stock was converted into 1.7129 shares of Common Stock. A total of 7,907,032 shares of PLDT's Common Stock were issued as a result of the voluntary and mandatory conversions of all of the Series III Convertible Preferred Stock.

The Series IV Cumulative Non-Convertible Redeemable Preferred Stock earns cumulative dividends at an annual rate of 13.5% based on the paid-up subscription price. It is redeemable at the option of PLDT at any time one year after subscription and at the actual amount paid for such stock, plus accrued dividends. On February 26, 2002, the Board of Directors called for the payment of a portion of the balance of the subscription price of the Series IV Cumulative Non-Convertible Redeemable Preferred Stock amounting to Php72 million, which was paid on March 5, 2002. On March 22, 2002, PLDT redeemed 60 million shares out of the 360 million subscribed shares of its Series IV Cumulative Non-Convertible Preferred Stock and paid Php72 million, representing the redemption price plus unpaid dividends up to the date of redemption.

The provisions of certain subscription agreements involving preferred stock have an effect on the ability of PLDT to, without written consent, sell certain assets and pay cash dividends unless all dividends for all past quarterly dividend periods have been paid, and provision has been made for the currently payable dividends.

17. Interest-bearing Financial Liabilities

This account consists of the following:

	2006	2005
	(in million pesos)	
Long-term portion of interest-bearing financial liabilities - net of current portion:		
Long-term debt (Note 24)	**63,769**	84,860
Obligations under capital lease (Notes 8 and 24)	**106**	344
Preferred stock subject to mandatory redemption (Note 24)	**1,369**	11,974
	65,244	97,178
Current portion of interest-bearing financial liabilities:		
Notes payable	**201**	–
Long-term debt maturing within one year (Note 24)	**16,184**	18,684
Obligations under capital lease maturing within one year (Notes 8 and 24)	**924**	754
	17,309	19,438

Unamortized debt discount, representing debt issuance costs and any difference between the fair value of consideration given or received on initial recognition, included in the financial liabilities are as follows:

	2006	2005
	(in million pesos)	
Long-term debt	**5,953**	8,829
Obligations under capital lease (Notes 8 and 24)	**540**	602
Preferred stock subject to mandatory redemption	**260**	3,916
Total unamortized debt discount at end of year	**6,753**	13,347

The following table describes all changes to unamortized debt discount as at December 31, 2006 and 2005.

	2006	2005
	(in million pesos)	
Unamortized debt discount at beginning of year	**13,347**	18,581
Additions during the year	**48**	198
Revaluations during the year	**(595)**	(1,114)
Settlements and conversions during the year	**(2,733)**	(1,436)
Accretion during the period charged to interest expense (Notes 5 and 24)	**(3,314)**	(2,882)
Unamortized debt discount at end of year	**6,753**	13,347

Long-term Debt

Long-term debt consists of:

Description	Interest Rates	**2006**		2005	
		(in millions)			
U.S. Dollar Debt:					
Export Credit Agencies-Supported Loans:					
Kreditanstalt für Wiederaufbau, or KfW	5.65% - 7.58% and US$ LIBOR + 0.55% - 2.5% in 2006 and 5.65% - 8.03% and US$ LIBOR + 0.55% - 2.5% in 2005	**US$201**	**Php9,877**	US$254	Php13,489
Finnvera, Plc, or Finnvera	7.53% - 7.75% and US$ LIBOR + 0.05% in 2006 and 6.36% - 7.75% and US$ LIBOR + 0.05% - 1.425% in 2005	**69**	**3,381**	105	5,552
Nippon Export and Investment Insurance of Japan, or NEXI	US$ LIBOR + 1% in 2006 and in 2005	**25**	**1,215**	49	2,612
Others	5.83% - 6.60% and US$ LIBOR + 0.15% - 1.60% and GOVCO's cost + 0.20% in 2006 and 5.83% - 7.89% and US$ LIBOR + 0.15% - 4.3% in 2005	**10**	**508**	28	1,473
		305	**14,981**	436	23,126
Fixed Rate Notes	7.85% - 11.375% in 2006 and 2005	**835**	**40,971**	987	52,354
Term Loans:					
Debt Exchange Facility	2.25% and US$ LIBOR + 1% in 2006 and 2005	**176**	**8,615**	165	8,748
GSM Network Expansion Facilities	4.49% - 4.70%, US$ LIBOR + 0.815% - 3.25% in 2006 and 4.49% and US$ LIBOR + 3.25% in 2005	**194**	**9,509**	86	4,562
Others	US$ LIBOR + 0.40% - 3.625% and 1.75% - 10% in 2006 and US$ LIBOR + 0.40% - 3.625% and 1.75% in 2005	**10**	**487**	18	978
Restructured Loans	US$ LIBOR + 1% in 2006 and 2005	**–**	**–**	90	4,767
Satellite Acquisition Loans	5.66% and US$ LIBOR + 1.75% - 2.75% in 2006 and 5.66% and US$ LIBOR + 1.75% in 2005	**42**	**2,083**	57	3,040
		US$1,562	**76,646**	US$1,839	97,575
Japanese Yen Debt:					
JBIC's Overseas Investment Loan, or OIL	2.125% in 2006 and 2005	**JP¥–**	**–**	JP¥6,970	3,139
Export Credit Agency-Supported Loan – NEXI Supported Loan	JP¥ LIBOR + 1.70% in 2006 and 2005	**–**	**–**	1,573	709
		JP¥–	**–**	JP¥8,543	3,848
Philippine Peso Debt:					
Peso Fixed Rate Corporate Notes	15% - 15.816% in 2006 and 14% - 15.816% in 2005		**808**		1,576
Term Loans:					
Secured Term Loans	24% - 28% and 90-day PHIBOR + 3% in 2006 and 24% and 90-day PHIBOR + 3% in 2005		**11**		166
Other Unsecured Term Loans	MART1 + 0.75% in 2006		**2,488**		–
Restructured Loans	91-day T-Bill rate + 1% in 2006 and 2005		**–**		379
			3,307		2,121
			79,953		103,544
Less portion maturing within one year			**16,184**		18,684
Total long-term debt			**Php63,769**		Php84,860

Note: Amounts presented are net of unamortized debt discount and debt issuance costs.

The scheduled maturities of our outstanding consolidated long-term debt at nominal values as at December 31, 2006 are as follows:

	U.S. Dollar Loans		Php Loans	Total
Year	**In U.S. Dollar**	**In Php**	**In Php**	**In Php**
		(in millions)		
2007	327	16,033	289	16,322
2008	147	7,211	556	7,767
2009	294	14,427	556	14,983
2010	71	3,471	1,366	4,837
2011	15	728	555	1,283
2012 and onwards	830	40,714	–	40,714
	1,684	82,584	3,322	85,906

U.S. Dollar Debt:

Export Credit Agencies-Supported Loans

In order to obtain imported components for our network infrastructure in connection with our expansion and service improvement programs, we obtained loans extended and/or guaranteed by various export credit agencies. These financings account for a significant portion of our indebtedness.

Kreditanstalt für Wiederaufbau, or KfW

KfW, a German state-owned development bank, is PLDT's largest single creditor. As at December 31, 2006, we owed US$201 million aggregate principal amount of debt to KfW, as follows:

- US$153 million provided under various export credit agency-backed facilities, of which US$43 million was in connection with our expansion and service improvement programs, and US$110 million in connection with the US$149 million refinancing facility discussed below; and

- US$48 million provided for the 15% downpayment portion and credit facilities without guarantee/insurance cover from the export credit agencies, of which US$30 million was in connection with the US$149 million refinancing facility discussed in the following paragraphs.

On January 25, 2002, PLDT signed two loan agreements with KfW, which provided PLDT with a US$149 million facility to refinance in part the repayment installments under its existing loans from KfW due from January 2002 to December 2004. The facility is composed of a nine-year loan, inclusive of a three-year disbursement period and a two-year grace period during which no principal is payable. It partly enjoys the guarantee of HERMES, the export credit agency of the Federal Republic of Germany. We have drawn US$140 million (Php6,864 million) under this facility as at December 31, 2006. PLDT waived further disbursements under this refinancing facility effective September 1, 2004. Thus, the undrawn portion of US$9 million was cancelled.

Of the amounts outstanding under these KfW loans, US$72 million will mature in 2007, US$55 million will mature in 2008, US$43 million will mature in 2009 and US$31 million will mature in 2010. Principal amortizations on these loans are generally payable in equal semi-annual installments.

Finnvera, Plc, or Finnvera

As at December 31, 2006, US$70 million (US$69 net of unamortized discount of US$1.1 million) or Php3,433 million (Php3,381 million net of unamortized discount of Php52 million) principal amount of Smart's debt was provided by various banks under an export credit agency-backed facility in connection with Smart's GSM expansion program. This facility is covered by a guaranty from Finnvera, the Finnish Export Credit Agency, for 100% of political and commercial risk for the refinancing facility of GSM Phases 5A and 5B. This is the only remaining outstanding facility guaranteed by Finnvera. Other Finnvera-guaranteed GSM loan facilities were already fully paid in the aggregate amount of US$16.5 million for GSM Phases 3 and 4 loan facilities on April 28, 2006, and in the aggregate amount of US$5.8 million for GSM Phases 1 and 2 loan facilities on October 31, 2005.

The US$100 million refinancing facility was obtained on February 11, 2005 in relation to Smart's GSM Phases 5A and 5B loans which were prepaid on March 1, 2005 with outstanding balances of US$60 million and US$41 million, respectively, at the time of prepayment. This refinancing facility is payable semi-annually over five years starting September 1, 2005 with final repayment due in March 2010. The principal benefit of refinancing the Phase 5 loan was the savings from a lower interest margin on the refinancing facility.

Of the amount outstanding under the remaining Finnvera guaranteed loan, US$20 million will mature in 2007, US$20 million will mature in 2008, US$20 million will mature in 2009 and US$10 million will mature in 2010. Principal amortization on this loan is payable in equal semi-annual installments.

Nippon Export and Investment Insurance of Japan, or NEXI

On November 28, 2002, Smart signed a US$100 million term loan facility supported by NEXI, of which US$60 million was drawn on November 28, 2003 and US$40 million on April 5, 2004. This loan is payable semi-annually over four years in eight equal installments starting May 28, 2004 with final repayment due in November 2007. The outstanding balance as at December 31, 2006 was US$25 million.

Other Export Credit Agency Supported Loans

PLDT has also obtained loans extended and/or guaranteed by other export credit agencies, including the Export-Import Bank of the United States, and the respective export credit agencies of France and Italy, in the aggregate outstanding principal amount of US$8 million as at December 31, 2006. Smart, likewise, obtained loans guaranteed by the export credit agencies of Norway and Italy amounting to US$2 million. Of the amounts outstanding under these loans, US$9 million will mature in 2007 and US$1 million will mature in 2008.

Fixed Rate Notes

PLDT has the following non-amortizing fixed rate notes outstanding as at December 31, 2006 and 2005:

Principal Amount	Interest Rate	Maturity Date	2006		2005	
				(in millions)		
US$300,000,000	8.350%	March 6, 2017	**US$296**	**Php14,523**	US$296	Php15,700
US$250,000,000	11.375%	May 15, 2012	**244**	**11,963**	243	12,902
US$167,000,000	10.500%	April 15, 2009	**166**	**8,148**	174	9,223
US$110,068,000	7.850%	March 6, 2007	**110**	**5,396**	138	7,320
US$ 19,310,000	10.625%	May 15, 2007	**19**	**941**	21	1,105
US$112,168,000	9.250%	June 30, 2006	**–**	**–**	115	6,104
			US$835	**Php40,971**	US$987	Php52,354

Term Loans

US$283 Million Term Loan Facility, or Debt Exchange Facility

On July 2, 2004, Smart acquired from Piltel's creditors approximately US$289 million, or 69.4%, in the aggregate of Piltel's outstanding restructured debt at that time, in exchange for Smart debt and a cash payment by Smart. In particular, Smart paid an amount in cash of US$1.5 million, or Php84 million and issued new debt of US$283.2 million, or Php15,854 million, at fair value of Php8,390 million, net of debt discount amounting to Php7,464 million.

The breakdown of the total amount of Smart debt issued to participating Piltel creditors is as follows:

- 2007 Facility in the amount of US$0.2 million payable in full in December 2007;
- 2008 Facility in the amount of US$2.9 million payable in full in December 2008; and
- 2014 Facility in the amount of US$280.1 million payable in full in June 2014.

As at December 31, 2006, outstanding balance of these loans amounted to US$283.2 million (US$175.6 million net of unamortized discount of US$107.6 million) or Php13,892 million (Php8,615 million net of unamortized discount of Php5,278 million).

Interest for the above facilities is payable every quarter at a floating rate of three months US$ LIBOR plus 1.00% for the 2007 and 2008 facilities, and a fixed rate of 2.25% per annum for the 2014 facility. Furthermore, a portion of the 2014 facility amounting to US$144 million has a variable yield option whereby the creditors have an option to elect for an early repayment at a discount either in December 2007 at 52.5% of the relevant debt amount or in December 2008 at 57.5% of the relevant debt amount.

GSM Network Expansion Facilities

On September 13, 2004, Smart signed a US$104 million 5-year term loan facility to finance the related Phase 7 GSM Equipment and services. The facility was awarded to ABN AMRO Bank, Banque National de Paribas, Calyon, DBS Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers with Finnish Export Credit, Plc as the Lender. The full amount of the facility was drawn on November 22, 2004, of which US$62 million and US$83 million remained outstanding as at December 31, 2006 and 2005, respectively. The loan is payable over five years in ten equal semi-annual payments starting May 2005 with final repayment in November 2009.

On June 8, 2001, Smart signed its GSM Phase 5A financing comprised of US$195 million loans, of which US$30 million is owed to Nordic Investment Bank, or NIB, US$15 million to Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V., or FMO, of the Netherlands and US$150 million supported by Finnvera. The NIB loan balance of US$12 million was prepaid in full on December 8, 2005, and the FMO loan balance of US$4 million was prepaid in full on March 1, 2006.

On August 8, 2005, Smart signed a US$30 million commercial facility with NIB to partly finance the related Phase 8 GSM equipment and services contracts. The facility is a 5-year term loan payable semi-annually in ten equal installments commencing six months from the first drawdown date at a floating rate of US$ LIBOR plus 0.815% margin per annum. The facility was drawn on July 11, 2006 for the full amount of US$30 million at a floating interest of 6.445% (5.63% US$ LIBOR plus 0.815% per annum margin). The first installment payment will commence on January 11, 2007. The full US$30 million amount remained outstanding as at December 31, 2006.

On August 10, 2005, Smart signed a loan facility for its GSM Phase 8 financing in the amount of US$70 million. The facility was awarded to the Bank of Tokyo Mitsubishi Ltd., Mizuho Corporate Bank Ltd., Standard Chartered Bank and Sumitomo Mitsui Banking Corporation as the Lead Arrangers, with FEC as the Lender. Smart opted to utilize only a total of US$67 million which was drawn in February 15, 2006 and March 13, 2006 for US$10 million and US$57 million, respectively. The balance of US$3 million was cancelled. The facility is a 5-year term loan payable in 10 equal semi-annual installments with final repayment on September 1, 2010. Interest is payable semi-annually at a fixed rate of 4.515% per annum. As at December 31, 2006, US$59 million remained outstanding.

On July 31, 2006, Smart signed a U.S. Dollar Term Loan Facility for US$44.2 million to partly finance the related Phase 9 GSM equipment and services contracts. The Lender is FEC with ABN AMRO Bank N.V., Standard Chartered Bank and Sumitomo Mitsui Banking Corporation and Mizuho Corporate Bank Ltd. as the Lead Arrangers. The facility is a 5-year term loan payable in 10 equal semi-annual installments commencing six months from the drawdown date at a CIRR Fixed rate of 4.05% per annum. The facility was drawn on November 10, 2006 for the full amount of US$44.2 million. The first installment will commence on January 16, 2007 with final repayment on July 15, 2011. As at December 31, 2006, the US$44.2 million loan remains outstanding.

Other Term Loan

On December 1, 2001, CyMed availed itself of a 6-year non-interest-bearing advances from certain officers of the company to fund its operating expenses, including salaries and other incidental expenses. The outstanding balance of this loan as at December 31, 2006 amounted to US$0.8 million, which is payable quarterly until December 31, 2009.

Undrawn Facilities

On October 16, 2006, Smart signed a U.S. Dollar Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM Facility for an amount of US$50 million. The facility is a five-year loan payable in 18 equal and consecutive quarterly installments commencing on the third quarter from the date of the first drawdown. Interest rate is floating at three-month US$ LIBOR plus 0.75% per annum margin.

Restructured Loans

On June 4, 2001, Piltel completed the restructuring of approximately Php41 billion of indebtedness and other claims owed to banks, trade creditors, bondholders and preferred shareholders, representing 98% of its total liabilities as at that date.

As a result of the restructuring, 50% of the financial debt of each participating creditor was released in consideration for the allotment of Piltel Series K Class I Convertible Preferred Stock, which shares were immediately and mandatorily converted into PLDT Convertible Preferred Stock. One PLDT Series V, VI or VII Convertible Preferred Stock was issued for every five Piltel Series K Class I Convertible Preferred Stock. Approximately, half of the remaining 50% of all participating creditors' (except for bondholders and preferred shareholders) financial debt became their participation in a Tranche B Loan in the same currency as their previous financial debt, and the other half became their participation in a Tranche C Loan also in the same currency as their previous financial debt. In the case of bondholders and preferred shareholders, the remaining 50% of their financial debt became their participation in the Conversion Notes Facility and in a single Tranche Peso loan, or the Term Notes Facility, respectively.

Additional creditors participated in the debt restructuring plan, such that only convertible bonds with principal amount of US$0.7 million remain unrestructured and presented as part of current portion of interest-bearing financial liabilities.

Piltel's residual long-term debt to third parties consists of:

Description	**2006**		2005	
		(in millions)		
Restructured Debts				
Philippine Pesos				
10 year Tranche B		**Php–**		Php190
15 year Tranche C		**–**		189
		–		379
U.S. Dollars				
10 year Tranche B	**US$–**	**–**	US$8	400
15 year Tranche C	**–**	**–**	7	395
15 year Conversion Notes Facility	**–**	**–**	75	3,972
	US$–	**–**	US$90	4,767
Total		**–**		5,146
Unrestructured Debt				
U.S. Dollars				
Convertible bonds	**US$1**	**45**	US$1	49
Total		**45**		5,195
Less portion maturing within one year		**45**		103
		Php–		Php5,092

On June 5, 2006, Piltel made a partial voluntary prepayment of principal under its Peso bank facility, U.S. dollar bank facility, various Trade Creditor Facilities and Notes Indenture. The voluntary prepayment was made in lieu of depositing Excess Cash Flow from the operations of Piltel's business into a Sinking Fund Account. The aggregate voluntary prepayment amount was Php9,325 million (Php6,393 million to Smart and Php2,932 million to third party creditors) or US$176 million (US$121 million to Smart and US$55 million to third party creditors), which was applied proportionally to the various debt facilities as set out in the Intercreditor Agreement dated June 4, 2001 or the Intercreditor Agreement.

On December 4, 2006, Piltel prepaid the outstanding balance of its restructured principal debt under its Peso bank facility, U.S. Dollar bank facility, Peso Term Note facility, various Trade Creditor Facilities and Notes Indenture in the aggregate amount of Php11,631 million (Php8,061 million to Smart and Php3,570 million to third party creditors) or US$233 million (US$161 million to Smart and US$72 million to third party creditors). Piltel obtained approval from the Bangko Sentral ng Pilipinas to source dollar payment from authorized agent banks.

The following is a summary of the key economic terms relating to the restructuring of the financial debt taking the form of Tranche B Loan, Tranche C Loan, Term Notes Facility and Conversion Notes Facility.

	Tranche B Loans	**Tranche C Loans**	**Term Notes Facility**	**Conversion Notes Facility**
Final maturity	10 years from June 4, 2001	15 years from June 4, 2001	15 years plus 10 days from June 4, 2001	15 years from June 4, 2001
Amortization	Years 1 and 2 – 0.00% Years 3 to 9 – 0.10% Year 10 – 99.30%	Years 1 and 2 – 0.00% Years 3 and 4 – 0.10% Year 5 – 2.00% Years 6 to 14 – 10.00% Year 15 – 7.80%	Years 1 and 2 – 0.00% Years 3 to 14 – 0.10% Year 15 – 98.80%	Years 1 and 2 – 0.00% Years 3 and 4 – 0.10% Year 5 – 1.05% Years 6 to 9 – 5.05% Year 10 – 54.65% Years 11 to 14 – 5.00% Year 15 – 3.90%
Interest rate	**Peso facility** – Philippine 91-day treasury bill rate, or T-Bill Rate, or the average of the 91-day T-Bill Rate and the 90-day Philippine inter-bank offered rate, or PHIBOR, if 90-day PHIBOR is different from the T-Bill Rate by more than 2.50%, plus 1.00% p.a. **U.S. dollar facilities** – London interbank rate for U.S. dollar deposits, or LIBOR, for three-month U.S. dollar deposits plus 1.00% p.a. **Yen facility** – LIBOR interbank rate for Yen deposits for three-month deposits plus 1.00% p.a.		181-day T-Bill Rate or the average of the 181-day T-Bill Rate and the 6-months PHIBOR, if 6-months PHIBOR is different from the T-Bill Rate by more than 2.50%, plus 1.00% p.a.	LIBOR for three-month deposits plus 1.00% p.a.
Interest payment dates	Quarterly in arrears		Semi-annually	

Piltel's restructured obligations were secured by substantially all present and future assets of Piltel under the MTI dated June 4, 2001 between Piltel and JPMorgan Chase Bank, N.A. (Manila Branch) Bank as Security Agent for the creditors, which established the security arrangements relating to the restructured debts. The participating creditors (other than the participating holders of the Peso Term Notes Facility) shared equally in first ranking security, while non-participating creditors and the participating holders of the Peso Term Note facility shared equally in second ranking security created under the MTI. Such mortgage was approved by at least two-thirds of Piltel's stockholders at its annual meeting on April 18, 2001 and by the NTC on May 18, 2001.

On July 7, 2006, Piltel, PLDT and JPMorgan Chase Bank, N.A. (Manila Branch), as Security Agent on behalf of the Finance Parties under the Intercreditor Agreement, agreed to certain amendments thereto to allow the amendment of any term of the MTI and the release and sale of certain properties or assets from the security interests created by the MTI upon the instructions of the creditor representatives. On the same date, and following the effectivity of the amendment of the Intercreditor Agreement, Piltel and JP Morgan Chase Bank, N.A., executed an Amendment to the MTI, pursuant to which Piltel is allowed to sell or dispose of certain categories of assets or properties with the consent of the Majority Bank Creditors, the Majority Trade Creditors and the Trustee under the MTI, provided, however that for as long as Avenue Asia holds a majority of Piltel's Conversion Notes, prior consent of Avenue Asia will be required for (i) any sale or disposition of any of the real properties of Piltel, and (ii) any sale or disposition of assets to Smart, PLDT or any of its affiliates.

Although Piltel fully paid its restructured debts on December 4, 2006, the MTI remains in effect for holders of convertible bonds due 2006 issued by PIHC and guaranteed by Piltel who did not participate in the debt restructuring plan. However, since the bondholders who did not participate in the debt restructuring plan did not accept the stipulations in their favor granting them a security interest under the MTI, Piltel and the Security Agent can revoke and withdraw such stipulations. Following such revocation and withdrawal of the stipulations in the MTI in favor of the non-accepting bondholders, Piltel and the Security Agent can terminate the MTI and release all assets of Piltel which were used as security for the restructured debts under the MTI.

Satellite Acquisition Loans

Mabuhay Satellite has an existing Credit Agreement with the Export-Import Bank of the United States, or Ex-Im Bank, to finance a portion of the cost of purchasing the Agila II Satellite. In 2004, Ex-Im Bank approved, in principle, the re-profiling of Mabuhay Satellite's US$42 million debt with them by extending the maturity of the loan by 1½ years to July 15, 2007 and reducing the interest rate by 1% to 5.6%. The revised repayment terms have been approved by the majority of the local creditor banks. As at December 31, 2006, the remaining outstanding loan amounted to US$10 million (Php511 million).

Mabuhay Satellite also has an existing Omnibus Agreement with a syndicate of local banks, or the Banks, which includes issuance of irrevocable standby Letters of Credit which as at December 31, 2006 had an aggregate stated value not exceeding US$11 million (Php527 million) in favor of Ex-Im Bank, as security under the Credit Agreement and a term loan to Mabuhay Satellite in the aggregate amount of US$32 million (Php1,572 million), which will mature on various dates from 2006 to 2009.

Mabuhay Satellite has constituted in favor of the Banks: (a) a first mortgage on its leasehold rights under a lease agreement entered into with the Subic Bay Metropolitan Authority and the components of the satellite system; (b) an assignment of its rights under its purchase contract for the satellite system; (c) an assignment of its rights under the transponder lease contracts to be entered into with its shareholders and other parties and the revenues therefrom; and (d) an assignment of the applicable proceeds of insurance to be taken on the satellite system.

As at December 31, 2006, the Banks have approved Mabuhay's request to extend the maturity of the loan under the Omnibus Agreement by two years to October 20, 2009, with a 1% increase in the margin on the deferred amount.

Japanese Yen Debt:

JBIC JP¥9,760 Million Overseas Investment Term Loan

On July 26, 2002, PLDT signed a loan agreement with JBIC for a credit facility of JP¥9,760 million under JBIC's OIL program. All outstanding amounts related to this loan were repaid in full on September 21, 2006.

NEXI Supported JP¥5,615 Million Syndicated Term Loan Facility

On June 11, 2003, PLDT signed a JP¥5,615 million syndicated term loan facility supported by NEXI, of which all outstanding amounts were repaid in full on June 13, 2006.

Philippine Peso Debt:

Php2,770 Million Peso Fixed Rate Corporate Notes

In connection with PLDT's service improvement and expansion programs, PLDT has entered into two loan agreements, pursuant to each of which PLDT issued fixed rate corporate notes in three tranches. Interest on each tranche is payable semi-annually.

Under the first loan agreement, PLDT borrowed an aggregate amount of Php1,500 million, of which Php230 million matured on November 11, 2002, Php500 million matured on November 9, 2004 and Php770 million matured on November 9, 2006.

Under the second loan agreement, PLDT borrowed an aggregate amount of Php1,270 million, of which Php360 million matured on June 9, 2003, Php100 million matured on June 9, 2005 and Php810 million will mature on June 9, 2010.

Php5 Billion Peso Fixed Rate Corporate Notes

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

Term Loans

Secured Term Loans

Php150 Million Term Loan Facility

On March 4, 2002, ePLDT entered into a three-year loan facility with Philippine Bank of Communications amounting to Php150 million. The loan facility was fully drawn on December 31, 2002 and payable in seven quarterly installments, with a grace period of one year, beginning in 2003. The quarterly principal payments of Php15 million started in June 2003 with a balloon payment of Php45 million in March 2005. Interest on this loan was equivalent to 91-day T-bill rate plus 4% per annum payable quarterly in arrears. The loan was secured by ePLDT's deed of assignment of receivables of a subsidiary from a foreign customer and an investment in an associate with an original cost of Php629 million. This loan was fully paid as at March 31, 2005.

Php100 Million Term Loan Facility

On March 15, 2004, ePLDT entered into a three-year term loan facility with Asia United Bank amounting to Php100 million for the payment of its outstanding short-term bank loan facility and for other working capital requirements. The loan facility was fully drawn as at December 31, 2004. The loan is to be repaid in nine equal quarterly installments starting March 2005 with final repayment in March 2007. Interest on the loan is equivalent to 90-day PHIBOR plus 3% per annum payable quarterly in arrears. The loan is secured by a Mortgage Trust Indenture Agreement, or MTIA, dated March 15, 2004, with Asia United Bank – Trust and Investments Group, on a parcel of land with a carrying value of Php279 million as at December 31, 2004. As at December 31, 2006, the outstanding balance of this loan amounted to Php11 million which will mature in March 2007.

Php149 Million Term Loan Facility

In January 2006, Vocativ, a wholly-owned call center subsidiary of ePLDT, partially prepaid Php89 million out of its outstanding five-year term loan facility of Php109 million with Asia United Bank for the payment of its additional capital expenditures and working capital requirements. Under the terms of the loan, principal payment is to be paid in 14 equal quarterly installments starting April 2006 with final repayment in July 2009. Interest on the loan is equivalent to 90-day PHIBOR plus 3% per annum payable quarterly in arrears. The loan is secured by a Mortgage Participation Certificate against the MTIA between ePLDT and Asia United Bank Corporation – Trust and Investments Group dated March 15, 2004 on a parcel of land, which excludes the buildings and improvements. The remaining balance of Php20 million was pre-terminated in April 2006.

Unsecured Term Loans

Php2,500 Million Term Loan Facility

On August 14, 2006, Smart signed a Peso Term Loan Facility with Metropolitan Bank and Trust Company to finance the related Phase 9 GSM facility for an amount of Php2,500 million. The facility is a five-year loan payable in 18 equal consecutive quarterly installments commencing on the third quarter from the date of the first drawdown. Interest rate is floating at three-month MART plus 0.75% per annum margin. The facility was drawn on December 11, 2006 for the full amount of Php2,500 million at a floating interest of 6.0232% (5.2732% three-month MART1 plus 0.75% per annum margin). The first installment will commence on September 11, 2007 with final repayment on December 9, 2011. The full amount of Php2,500 million (Php2,488 million net of unamortized discount of Php12 million) was outstanding as at December 31, 2006.

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.

The principal factors that can negatively affect our ability to comply with these financial ratios and other financial tests are depreciation of the Philippine peso relative to the U.S. dollar, poor operating performance of PLDT and its 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. Interest expense may increase as a result of various factors including issuance of new debt, the refinancing of lower cost indebtedness by higher cost indebtedness, depreciation of the Philippine peso, the lowering of PLDT's credit ratings or the credit ratings of the Philippines, increase in reference interest rates, and general market conditions. Since approximately 96% of PLDT's total consolidated debts are 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.

PLDT's debt instruments contain a number of other negative covenants that, subject to certain exceptions and qualifications, restrict PLDT's ability to take certain actions without lenders' approval, including: (a) incurring additional indebtedness; (b) prepaying other debt; (c) making investments; (d) extending loans; (e) extending guarantees or assuming the obligations of other persons; (f) paying dividends or other distributions or redeeming, repurchasing or otherwise acquiring shares of PLDT's capital stock; (g) disposing of all or substantially all of its assets or of assets in excess of specified thresholds of its tangible net worth; (h) creating any lien or security interest; (i) permitting set-off against amounts owed to PLDT; (j) merging or consolidating with any other company; (k) entering into transactions with stockholders and affiliates; and (l) entering into sale and leaseback transactions.

Further, certain of PLDT's debt instruments contain provisions wherein PLDT may be required to repurchase or prepay certain indebtedness in case of change in control of PLDT.

PLDT's debt instruments also contain customary and other default provisions that permit the lender to accelerate amounts due or terminate their commitments to extend additional funds under the debt instruments. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if PLDT is in default under another debt instrument; in some cases, the cross-

default provision is triggered upon a payment or other default permitting the acceleration of PLDT's debt, whether or not the defaulted debt is accelerated. In other cases, the cross-default provision requires the defaulted loan to be accelerated. In some debt instruments, the cross-default provision will be triggered only if the principal amount of the defaulted indebtedness exceeds a threshold amount specified in these debt instruments; (b) failure by PLDT to meet certain financial ratio covenants referred to above; (c) the occurrence of any material adverse change in circumstances that a lender reasonably believes materially impairs PLDT's ability to perform its obligations under its debt instrument with the lender; (d) the revocation, termination or amendment of any of the permits or franchises of PLDT in any manner unacceptable to the lender; (e) the abandonment, termination or amendment of the project financed by a loan in a manner unacceptable to the lender; (f) the nationalization or sustained discontinuance of all or a substantial portion of PLDT's business; and
(g) other typical events of default, including the commencement of bankruptcy, insolvency, liquidation or winding up proceedings by PLDT.

Smart's debt instruments contain certain restrictive covenants that require Smart to comply with specified financial ratios and other financial tests at semi-annual measurement dates. The financial tests under Smart's loan agreements include compliance with a debt to equity ratio of not more than 1.5:10, a debt to EBITDA ratio of not more than 3:1 and a debt service coverage ratio of not less than 1.50:1. Smart has maintained compliance with all of its financial covenants. The agreements also contain customary and other default provisions that permit the lender to accelerate amounts due under the loans or terminate their commitments to extend additional funds under the loans. These default provisions include: (a) cross-defaults and cross-accelerations that permit a lender to declare a default if Smart is in default under another loan agreement. These cross-default provisions are triggered upon a payment or other default permitting the acceleration of Smart debt, whether or not the defaulted debt is accelerated; (b) failure by Smart to comply with certain financial ratio covenants; (c) any reduction in PLDT's ownership of Smart's shares below 51%; (d) any reduction in First Pacific's and Metro Pacific Corporation's collective direct and/or indirect ownership of PLDT's common stock below 17.5% of the total common stock outstanding; and (e) the occurrence of any material adverse change in circumstances that the lender reasonably believes materially impairs Smart's ability to perform its obligations under its loan agreements.

As at December 31, 2006 convertible bonds with a principal amount of US$0.7 million had fallen due for payment and had not been paid. These bonds represent the sole unrestructured borrowings of Piltel. Piltel's failure to redeem the convertible bonds when they fell due does not cause a default under the debt arrangements of any other member of the PLDT group. Piltel is working to identify the holders of the convertible bonds so that it can finalize redemption arrangements.

The Credit and Omnibus Agreements of Mabuhay Satellite impose several negative covenants which, among other things, restrict material changes in Mabuhay Satellite's nature of business and ownership structure, any lien upon or with respect to any of its assets or to any right to receive income, acquisition of capital stock, declaration and payment of dividends, merger, consolidation and sale with another entity and incurring or guaranteeing additional long-term debt beyond prescribed amounts.

ePLDT's loan agreement imposes negative covenants which, among other things, restrict ePLDT in regard to payment of cash dividends or any other income or any capital distribution to PLDT, voluntary suspension of its entire business operations for a period of 60 consecutive days, dissolution of its legal existence, and creation of any encumbrances on the shares pledged. One of ePLDT's loan agreements also requires ePLDT to comply with specified financial ratios and other financial tests at quarterly measurement dates. The agreement also contains customary and other default provisions that permit the lender to accelerate amounts due under the loan or terminate their commitments to extend additional funds under the loan. As at December 31, 2006, ePLDT was in compliance with all of its financial covenants.

Obligations Under Capital Lease

The future minimum payments for capitalized leases as at December 31, 2006 are as follows:

Year	(in million pesos)
2007	1,521
2008	38
2009	10
2010 and onwards	1
Total minimum lease payments	1,570
Less amount representing interest	540
Present value of net minimum lease payments	1,030
Less obligations under capital lease maturing within one year (Notes 8 and 24)	924
Long-term portion of obligations under capital lease (Notes 8 and 24)	106

Municipal Telephone Projects

In 1993, PLDT entered into two lease agreements with the Philippine Department of Transportation and Communications, or DOTC, covering telecommunications facilities in the province of Bohol and Batangas established under the Municipal Telephone Act. Under these agreements, PLDT was granted the exclusive right to provide telecommunications management services, to expand services, and to promote the use of the DOTC-contracted facilities in certain covered areas for a period of 15 years. Title to the properties shall be transferred to PLDT upon expiration of the lease term. As at December 31, 2006, PLDT's aggregate remaining obligation under this agreement was approximately Php858 million. In case of cancellation, PLDT is liable to pay Php100 million under each of the two contracts as liquidated damages.

On June 1, 2004, PLDT served the DOTC a notice of termination of the lease agreement in respect of the telecommunications system in Bohol which state of deterioration, obsolescence and disrepair has made it impossible for PLDT to continue managing, operating, and maintaining the system. Since 2002, PLDT has been advising the DOTC of the need to review the viability of the system as PLDT has infused more than Php200 million for upgrades and maintenance to keep the system operable. Further, the enactment of Public Telecommunications Policy Act, or R.A. No. 7925, which negated the DOTC's warranty to grant PLDT the exclusive right to provide telecommunication services in the areas stipulated, prevented PLDT from achieving the originally projected profitability, thereby rendering it impossible for PLDT to continue fulfilling its obligation under the lease agreement. Although several discussions have been held since then, no mutually acceptable agreement has been reached. On June 30, 2004, the DOTC advised PLDT that the request for termination of the lease agreement in Bohol has been referred to the Department of Justice, or DOJ, as government agencies are required to refer all interpretation of contracts and agreements to the DOJ secretary as attorney-general of the national government. On May 5, 2005, PLDT received a letter from the DOTC stating that PLDT is in default for failure to remit to the DOTC the quarterly installments under the lease agreement. Due to the failure of the parties to amicably settle their dispute, on September 28, 2005, PLDT demanded that the dispute be referred to arbitration and that the parties agree on the composition of the arbitration committee. In response, the DOTC, in a letter dated October 17, 2005, informed PLDT that pursuant to Executive Order No. 269, Series of 2004, dated January 12, 2004, the existing communications programs and projects implemented by DOTC were transferred to the Commission on Information and Communications Technology, or CICT, and that the DOTC had forwarded to CICT PLDT's letter dated September 28, 2005. In a letter dated March 24, 2006, the CICT informed PLDT that the CICT poses no objection on PLDT's stated intentions and preference to refer the unresolved and outstanding issues to the Philippine Dispute Resolution Center, Inc., or PDRCI, per the arbitration clause of the lease agreement. On June 27, 2006, a Request for Arbitration dated June 1, 2006 was filed by PLDT with the PDRCI. On November 15, 2006, DOTC has filed its Answer to the said Request for Arbitration. As at December 31, 2006, the net book value of the telecommunications system in Bohol, including PLDT's additional capital expenditure relating to the telecommunications system, and corresponding capital lease obligation amounted to Php21 million and Php735 million, respectively.

Piltel also entered into an agreement for the financial lease of the Palawan Telecommunications System of the Municipal Telephone Public Office with the DOTC on September 3, 1994. The Municipal Telephone Public Office Contract is a 30-year contract for Piltel to lease facilities for public call office stations in the Palawan area, with revenues going to Piltel. In consideration, Piltel pays the DOTC an escalating annual lease fee. As at December 31, 2006, Piltel's aggregate remaining obligation under this agreement was approximately Php477 million.

Other Long-term Capital Lease Obligations

The PLDT Group has various long-term lease contracts for a period of three years covering various office equipment. In particular, PLDT, Smart and ePLDT have capital lease obligations in the aggregate amount of Php237 million as at December 31, 2006 in respect of office equipment.

Under the terms of certain loan agreements and other debt instruments, PLDT may not create, incur, assume or permit or suffer to exist any mortgage, pledge, lien or other encumbrance or security interest over the whole or any part of its assets or revenues or suffer to exist any obligation as lessee for the rental or hire of real or personal property in connection with any sale and leaseback transaction.

Preferred Stock Subject to Mandatory Redemption

The movements of PLDT's preferred stock subject to mandatory redemption for 2006 and 2005 are as follows:

	2006				2005			
	Series V	**Series VI**	**Series VII**	**Total**	Series V	Series VI	Series VII	Total
				(in million pesos)				
Balance at beginning of year	**272**	**6,321**	**5,381**	**11,974**	2,103	6,440	6,072	14,615
Accretion	**13**	**481**	**282**	**776**	252	782	451	1,485
Conversion	**(224)**	**(5,253)**	**(5,543)**	**(11,020)**	(2,083)	(507)	–	(2,590)
Revaluation	**–**	**(241)**	**(120)**	**(361)**	–	(394)	(1,142)	(1,536)
Balance at end of year	**61**	**1,308**	**–**	**1,369**	272	6,321	5,381	11,974

PLDT had issued 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001. Shares of Series V, VI and VII Convertible Preferred Stock are entitled to receive annual dividends of Php18.70 per share, US$0.397 per share and JP¥40.7189 per share, respectively. Each share of Series V, VI and VII Convertible Preferred Stock is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stock and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted into PLDT common shares. Under a put option exercisable for 30 days, holders of common shares received, on mandatory conversion of the Series V, VI and VII Convertible Preferred Stock, will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share, US$36.132 per share, and JP¥4,071.89 per share, respectively.

The Series V Convertible Preferred Stock was designated as a compound instrument consisting of liability and equity components. The fair value of the Convertible Preferred Stock was determined on the issue date, of which the fair value of the liability component as at date of issuance is recorded as

"Preferred Stock Subject to Mandatory Redemption" and is included under the "Interest-bearing Financial Liabilities" account in the consolidated balance sheets. The residual amount was assigned as the equity component.

The cost of each foreign currency component of the Convertible Preferred Stock Series VI and VII, was designated as a debt instrument with embedded call options. The fair value of the Convertible Preferred Stock was determined on the issue date, of which the fair value of embedded call options was bifurcated and accounted for separately, see *Note 2 – Summary of Significant Accounting Policies and Practices* and *Note 24 – Financial Assets and Liabilities*. The residual amount was assigned as liability components and recorded as "Preferred Stock Subject to Mandatory Redemption" and is included under the "Interest-bearing Financial Liabilities" account in the consolidated balance sheets.

The difference between the amount designated as liability components of the Series V, VI and VII Convertible Preferred Stock at issue date and the aggregate redemption value is accreted over the period up to the put option date using the effective interest rate method. Accretions added to "Preferred Stock Subject to Mandatory Redemption" and charged to interest as at December 31, 2006, 2005 and 2004 amounted to Php776 million, Php1,485 million and Php1,556 million, respectively.

"Preferred Stock Subject to Mandatory Redemption" amounted to Php1,369 million and Php11,974 million as at December 31, 2006 and 2005, respectively, after revaluation of Series VI and VII Convertible Preferred Stock to the exchange rates at balance sheet dates and after giving effect to the above accretions, conversions and additional issuances. As at December 31, 2006 and 2005, 10,937,309 shares and 3,376,743 shares, respectively, of the Convertible Preferred Stock have been voluntarily converted into PLDT common shares. On August 18, 2006, all 3,842,000 shares of Series VII Convertible Preferred Stock have been voluntarily converted into PLDT common shares. The outstanding shares of Series V and VI Convertible Preferred Stock as at December 31, 2006 were 46,047 shares and 875,188 shares, respectively. The aggregate redemption value of the outstanding Series V and VI Convertible Preferred Stock amounted to Php1,629 million and Php15,890 million as at December 31, 2006 and 2005, respectively.

The corresponding dividends on these shares charged as interest expense amounted to Php130 million, Php251 million and Php284 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Notes Payable

In 2006, SPi obtained unsecured dollar-denominated short-term notes payable from various local commercial banks amounting to US$3.7 million. Interest on the notes range from 7.4% to 9.2% of the outstanding balance per annum and the notes are payable within an average of 150 days from the availment date. The outstanding balance of Php201 million as at December 31, 2006 will mature in various months in 2007.

18. Other Noncurrent Liabilities

This account consists of:

	2006	2005
	(in million pesos)	
Accrual of capital expenditures under long-term financing	**5,646**	5,769
Asset retirement obligations (Note 8)	**831**	752
Prepayments received under receivable purchase facility (Note 14)	**205**	976
Unearned revenues	**63**	71
Others	**836**	32
	7,581	7,600

19. Accrued Expenses and Other Current Liabilities

This account consists of:

	2006	2005
	(in million pesos)	
Accrued utilities and related expenses (Note 20)	**8,078**	5,559
Accrued employee benefits (Note 21)	**7,474**	1,760
Accrued interest and other related costs (Notes 17 and 20)	**1,768**	2,003
Accrued taxes and related expenses (Notes 22 and 23)	**756**	760
Payable in installment purchase of equity investment (Note 11)	**–**	1,278
Others	**1,026**	1,946
	19,102	13,306

20. Related Party Transactions

a. Air Time Purchase Agreement between PLDT and AIL and Related Agreements

PLDT is a party to a Founder NSP Air Time Purchase Agreement entered into with AIL in March 1997, which was amended in December 1998, under which PLDT was granted the exclusive right to sell AIL services as NSP in the Philippines. In exchange, the Air Time Purchase Agreement required PLDT to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing on January 1, 2002, the purported date of commercial operations of the Garuda I Satellite. In the event that AIL's aggregate billed revenue is less than US$45 million in any given year, the Air Time Purchase Agreement also states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term.

In March 2003, PLDT, together with the other founder NSPs, entered into a Standstill Agreement with AIL. Under the Standstill Agreement, payments made to AIL under the Air Time Purchase Agreement were based on billings of actual usage pending final agreement on the terms of the proposed amendment to the Air Time Purchase Agreement.

On September 1, 2006, AIL, PT Asia Cellular Satellite and Inmarsat reached an agreement to pool their resources to develop product and service offerings in the Asian region, founded on their respective mobile satellite communications networks, with (a) Inmarsat performing the role of satellite and network operator and wholesale product and services developer and (b) the AIL performing the role of wholesale and retail distributor of products and services.

PLDT, likewise, signed a Gateway Services Agreement with Inmarsat, whereby PLDT committed to provide gateway infrastructure in Subic Bay up to a maximum amount of US$5 million. In exchange, PLDT will earn US$0.015 per minute for interconnection services to be provided to Inmarsat distribution partners for traffic going through the gateway facility in Subic Bay.

On September 1, 2006, AIL and PT Asia Cellular Satellite signed a Term Sheet, or Banks Term Sheet, with a majority of the banks that will be used as the basis for further good faith negotiations between the parties thereto with a view to entering into an agreement further amending the Amended and Restated Credit Agreement with AIL's bank creditors.

Under the Banks Term Sheet, a majority of the banks agreed, subject to satisfaction of certain conditions, among other things, to amend the Founder NSP Air Time Purchase Agreement and to re-denominate AIL debt into non-interest-bearing subordinated convertible bonds maturing in 2015; to amortize a senior term loan with a final maturity on August 1, 2013 and a junior term loan with bullet payments on August 1, 2014 and 2015.

Pursuant to the business collaboration arrangements between AIL and Inmarsat, on September 1, 2006, Inmarsat made the first payment of US$4 million to AIL which was used to pay principal and interest payable to the banks in accordance with the Banks Term Sheet.

On February 1, 2007, PLDT (through ACeS Philippines) signed an agreement to purchase LMGT and MMOC's 50% equity and debt interest in AIL, respectively, for US$750,000 in accordance with a notice of proposed transfer issued by LMGT dated December 22, 2006 pursuant to a right of first refusal under the AIL Shareholders' Agreement.

b. Transactions with Major Stockholders, Directors and Officers

Transactions to which PLDT or any of its subsidiaries is a party, in which a director, key officer or owner of more than 10% of the outstanding common stock of PLDT, or any member of the immediate family of a director, key officer or owner of more than 10% of the outstanding common stock of PLDT had a direct or indirect material interest, as at December 31, 2006 and 2005 and for the three years ended December 31, 2006, 2005 and 2004 are as follows:

1. Cooperation Agreement with First Pacific and certain affiliates, or FP Parties, NTT Communications and DoCoMo

In connection with the transfer by NTT Communications of approximately 12.6 million shares of PLDT's common stock to DoCoMo pursuant to a Stock Sale and Purchase Agreement dated January 31, 2006 between NTT Communications and DoCoMo, the FP Parties, NTT Communications and DoCoMo entered into a Cooperation Agreement, dated January 31, 2006. Under the Cooperation

Agreement, the relevant parties extended certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999, as amended, and the Shareholders Agreement dated March 24, 2000, to DoCoMo, including:

- certain contractual veto rights over a number of major decisions or transactions; and
- rights relating to the representation on the board of directors of PLDT and Smart, respectively, and any committees thereof.

Moreover, key provisions of the Cooperation Agreement pertain to, among other things:

- *Restriction on Ownership of Shares of PLDT by NTT Communications and DoCoMo.* Each of NTT Communications and DoCoMo has agreed not to beneficially own, directly or indirectly, in the aggregate with their respective subsidiaries and affiliates, more than 21% of then issued and outstanding shares of PLDT's common stock. If such event does occur, the FP Parties, as long as they own in the aggregate not less than 21% of then issued and outstanding shares of PLDT's common stock, have the right to terminate their respective rights and obligations under the Cooperation Agreement, the Shareholders Agreement and the Stock Purchase and Strategic Investment Agreement.
- *Limitation on Competition.* NTT Communications, DoCoMo and their respective subsidiaries are prohibited from investing in excess of certain thresholds in businesses competing with PLDT in respect of customers principally located in the Philippines and from using their assets in the Philippines in such businesses. Moreover, if PLDT, Smart or any of Smart's subsidiaries intends to enter into any contractual arrangement relating to certain competing businesses, PLDT is required to provide, or to use reasonable efforts to procure that Smart or any of Smart's subsidiaries provide, NTT Communications and DoCoMo with the same opportunity to enter into such agreement with PLDT or Smart or Smart's subsidiaries, as the case may be.
- *Business Cooperation.* PLDT and DoCoMo agreed in principle to collaborate with each other on the business development, roll-out and use of a wireless-code division multiple access mobile communication network. In addition, PLDT agreed, to the extent of the power conferred by its direct or indirect shareholding in Smart, to procure that Smart will (i) become a member of a strategic alliance group for international roaming and corporate sales and services and (ii) enter into a business relationship concerning preferred roaming and inter-operator tariff discounts with DoCoMo.
- *Additional Rights of DoCoMo.* Upon NTT Communications, 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, DoCoMo and their subsidiaries continue to own in the aggregate 17.5% of the shares of PLDT's common stock then outstanding, DoCoMo will be entitled to certain additional rights under the Cooperation Agreement.
- *Change in Control.* Each of NTT Communications, DoCoMo and the FP Parties agreed that to the extent permissible under applicable laws and regulations of the Philippines and other jurisdictions, subject to certain conditions, to cast its vote as a shareholder in support of any resolution proposed by the Board of Directors of PLDT for the purpose of safeguarding PLDT from any Hostile Transferee. A *"Hostile Transferee"* is defined under the Cooperation Agreement to mean any person (other than NTT Communications, DoCoMo, First Pacific or any of their respective affiliates) determined to be so by the PLDT Board of Directors and includes, without limitation, a person who announces an intention to acquire, seeking to acquire or

acquires 30% or more of PLDT common shares then issued and outstanding from time-to-time or having (by itself or together with itself) acquired 30% or more of the PLDT common shares announces an intention to acquire, seeking to acquire or acquires a further 2% of such PLDT common shares: (a) at a price per share which is less than the fair market value as determined by the board of directors of PLDT as advised by a professional financial advisor; (b) which is subject to conditions which are subjective or which could not reasonably be satisfied; (c) without making an offer for all PLDT common shares not held by it and/or its affiliates and/or persons who, pursuant to an agreement or understanding (whether formal or informal), actively cooperate to obtain or consolidate control over PLDT; (d) whose offer for the PLDT common shares is unlikely to succeed or (e) whose intention is otherwise not *bona fide*; provided that, no person will be deemed a Hostile Transferee unless prior to making such determination, the board of directors of PLDT has used reasonable efforts to discuss with NTT Communications and DoCoMo in good faith whether such person should be considered a Hostile Transferee.

- *Termination.* If NTT Communications, DoCoMo or their respective subsidiaries cease to own, in the aggregate, full legal and beneficial title to at least 10% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement and the Shareholders Agreement will terminate and the Strategic Arrangements (as defined in the Stock Purchase and Strategic Investment Agreement) will terminate. If the FP Parties and their respective subsidiaries cease to have, directly or indirectly, effective voting power in respect of shares of PLDT's common stock representing at least 18.5% of the shares of PLDT's common stock then issued and outstanding, their respective rights and obligations under the Cooperation Agreement, the Stock Purchase and Strategic Investment Agreement, and the Shareholders Agreement will terminate.

2. *Integrated i-mode Services Package Agreement between DoCoMo and Smart*

An Integrated i-mode Services Package Agreement was entered into by Smart and DoCoMo on February 15, 2006, under which DoCoMo agreed to grant Smart, on an exclusive basis within the territory of the Philippines for a period of five years, an integrated i-mode services package including a non-transferable license to use the licensed materials and the i-mode brand, as well as implementation support and assistance and post-commercial launch support from DoCoMo. Pursuant to this agreement, Smart is required to pay an initial license fee and running royalty fees based on the revenue arising from i-mode subscription fees and data traffic. The initial license fee paid as at December 31, 2006 amounted to Php53 million.

3. *Advisory Services Agreement between DoCoMo and PLDT*

An Advisory Services Agreement was entered into by DoCoMo and PLDT on June 5, 2006, in accordance with the Cooperation Agreement between PLDT and DoCoMo. Pursuant to the Agreement, DoCoMo will provide the services of certain key personnel in connection with certain aspects of the business of PLDT and Smart. Also, the agreement governs the terms and conditions of the appointments and the corresponding fees related thereto. The initial license fee paid as at December 31, 2006 amounted to Php12 million. Outstanding liability under this agreement amounted to Php32 million as at December 31, 2006.

4. *Other Agreements with NTT Communications and/or its Affiliates*

PLDT is a party to the following agreements with NTT Communications and/or its affiliates:

- *Advisory Services Agreement*. On March 24, 2000, PLDT entered into an agreement with NTT Communications, as amended on March 31, 2003 and March 31, 2005, under which NTT Communications provides PLDT with technical, marketing and other consulting services for various business areas of PLDT starting April 1, 2000;

- *Arcstar Licensing Agreement and Arcstar Service Provider Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Worldwide Telecommunications Corporation under which PLDT markets managed data and other services under NTT Communications' "Arcstar" brand to its corporate customers in the Philippines. PLDT also entered into a Trade Name and Trademark Agreement with NTT Communications under which PLDT has been given the right to use the tradename "Arcstar" and its related trademark, logo and symbols, solely for the purpose of PLDT's marketing, promotional and sales activities for the Arcstar services within the Philippines; and

- *Conventional International Telecommunications Services Agreement.* On March 24, 2000, PLDT entered into an agreement with NTT Communications under which PLDT and NTT Communications agreed to cooperative arrangements for conventional international telecommunications services to enhance their respective international businesses.

Total fees under these agreements amounted to Php184 million, Php256 million and Php336 million for the years ended December 31, 2006, 2005 and 2004, respectively. As at December 31, 2006 and 2005, outstanding obligations of PLDT amounted to Php18 million and Php23 million, respectively.

5. *Agreement between Smart and Asia Link B.V., or ALBV.* Smart has an existing Technical Assistance Agreement with ALBV for the latter to provide technical support services and assistance in the operations and maintenance of cellular business for a period of five years, subject to renewal upon mutual agreement between the parties. The agreement provides for quarterly payments of technical service fees equivalent to 2% of the net revenues of Smart. In January 2004, the agreement was amended, reducing the technical service fees to be paid by Smart to ALBV to 1% of net revenues effective January 1, 2004. On February 18, 2004, Smart and ALBV entered into a renewal of the Technical Assistance Agreement extending the effectivity of the terms thereof to February 23, 2008. Furthermore, in view of the acquisition by Smart of Piltel Series K Class I Convertible Preferred Stock held by PLDT, the parties agreed to make the consolidated net revenues of Smart the basis for the computation of the 1% technical service fees payable by Smart to ALBV, effective January 1, 2005.

   Smart also has an existing Services Agreement with ALBV for a period of 25 years starting January 1, 1999, which will automatically expire unless renewed by mutual agreement of both parties. Under the agreement, ALBV provides advice and assistance to Smart in sourcing capital equipment and negotiating with international suppliers, arranging international financing and other services therein consistent with and for the furtherance of the objectives of the services. Service agreement fees were paid for the whole 25-year period.

   ALBV is a subsidiary of the First Pacific Group.

Total fees under these agreements amounted to Php591 million, Php567 million and Php507 million for the years ended December 31, 2006, 2005 and 2004, respectively. Outstanding obligations of Smart under these agreements amounted to Php128 million and Php194 million as at December 31, 2006 and 2005, respectively. Outstanding prepaid management fees as at December 31, 2006 and 2005 amounted to Php869 million and Php920 million, respectively.

6. *Agreements Relating to Insurance Companies.* Gotuaco del Rosario and Associates, or Gotuaco,

acts as the broker for certain insurance companies to cover certain insurable properties of the PLDT Group. Insurance premiums are remitted to Gotuaco and the broker's fees are settled between Gotuaco and the insurance companies. In addition, PLDT has an insurance policy with Malayan Insurance Co., Inc., or Malayan, wherein premiums are directly paid to Malayan. Total insurance expenses under these agreements amounted to Php360 million, Php468 million and Php488 million for the years ended December 31, 2006, 2005 and 2004, respectively. Two directors of PLDT have a direct/indirect interests in or serve as a director/officer of Gotuaco and Malayan.

Compensation of Key Management Personnel of the PLDT Group

PLDT Group's compensation of key management personnel by benefit type follows:

	2006	2005	2004
		(in million pesos)	
Share-based payments (Note 21)	**978**	372	228
Short-term employee benefits	**698**	591	436
Post-employment benefits	**30**	29	21
	1,706	992	685

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 finance 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.

21. Employee Benefits

Executive Stock Option Plan, or ESOP

On April 27, 1999 and December 10, 1999, the Board of Directors and stockholders, respectively, approved the establishment of an ESOP and the amendment of the Seventh Article of the Articles of Incorporation of PLDT denying the pre-emptive right of holders of common stock to subscribe for any issue of up to 1,289,745 common stock pursuant to the ESOP. The ESOP covers management executives, which include officers with rank of Vice President up to the President, executives with the rank of Manager up to Assistant Vice President, and advisors/consultants engaged by PLDT. The ESOP seeks to motivate option holders to achieve PLDT's goals, reward option holders for the creation of shareholder value, align the option holders' interests with those of the stockholders of PLDT, and retain the option holders to serve the long-term interests of PLDT. The ESOP is administered by the Executive Compensation Committee of the Board of Directors. About 1.3 million shares of common stock of PLDT had been reserved as underlying option shares under the ESOP in 1999.

Movements in the number of stock options outstanding under the ESOP are as follows:

	2006	2005
Balance at beginning of year	**197,500**	536,589
Exercised shares*	**(78,466)**	(335,605)
Cancellations/forfeitures	**–**	(3,484)
Balance at end of year	**119,034**	197,500

* *Based on date of payment of exercised shares.*

As at December 31, 2006, options covering a total of 750,816 shares had been exercised by certain officers and executives at an exercise price of Php814 per share.

The fair value of the ESOP was estimated at the date of grant using an option pricing model, which considered annual stock volatility, risk-free interest rate, expected life of option, exercise price of Php814 per share, and a weighted average price of Php870 per share and of Php315 per share for the 1999 and 2002 Grants, respectively, as at valuation date. Total fair value of shares granted amounted to Php359 million as at December 31, 2006 and 2005. No fair value of options were recognized as an expense for the years ended December 31, 2006 and 2005 and Php14 million for the year ended December 31, 2004.

LTIP

On August 3, 2004, PLDT's Board of Directors approved the establishment of the LTIP for eligible key executive officers and advisors of PLDT and its subsidiaries, which is administered by the Executive Compensation Committee. The LTIP was originally a four-year cash-settled share based plan covering the period from January 1, 2004 to December 31, 2007. The payment was intended to be made at the end of the plan period (without interim payments) contingent upon the achievement of an approved target increase in PLDT's common share price by the end of the plan period and a cumulative consolidated net income target for the plan period. The target increase in the PLDT base share price, which was the average of the closing prices of PLDT shares ten trading days before or after December 31, 2003, was approximately 15% per annum compounded for the plan period.

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, upon endorsement of the Executive Compensation Committee, was approved by the Board of Directors to cover the 2007-2009 plan. As a result of the establishment of the new LTIP, the Board of Director also approved the early vesting of the current LTIP by the end of 2006.

The fair value of the LTIP was estimated using an option pricing model, which considered annual stock volatility, risk-free interest rates, the remaining life of options and the share price capped at Php2,300.00 as at December 31, 2006. Incentive cost per share as at December 31, 2006 and 2005 amounted to Php1,350.00 and Php1,044.01, respectively. The fair value of the LTIP recognized as an expense for the years ended December 31, 2006, 2005 and 2004 amounted to Php3,150 million, Php1,214 million and Php631 million, respectively. As at December 31, 2006 and 2005, total LTIP liability amounted to Php5,030 million and Php1,880 million, respectively, see *Note 3 – Management's Use of Estimates and Judgments*.

Movements in the number of share appreciation rights outstanding under the LTIP are as follows:

	2006	2005
Balance at beginning of year	**3,884,406**	3,685,959
Cancellations/forfeitures	**(140,449)**	(294,982)
Awards	**–**	493,429
Balance at end of year	**3,743,957**	3,884,406

Pension

Defined Benefit Pension Plans

We have defined benefit pension plans, covering substantially our permanent and regular employees, excluding those of Smart and its subsidiary, I-Contacts, Inc., which require contributions to be made to separate administrative funds.

Our actuarial valuation is done on an annual basis. Based on the latest actuarial valuation, the actual present value of accrued liabilities, net of pension cost and average assumptions used in developing the valuation are as follows:

	2006	2005	2004
		(in million pesos)	
Change in benefit obligation:			
Benefit obligation at beginning of year	**7,652**	6,924	6,008
Current service cost	**479**	689	401
Interest cost	**895**	453	539
Benefits paid	**(594)**	(495)	(819)
Actuarial loss on obligation	**4,826**	81	787
Liabilities of newly acquired subsidiaries	**56**	–	8
Benefit obligation at end of year	**13,314**	7,652	6,924
Change in plan assets:			
Fair value of plan assets at beginning of year	**5,154**	4,449	3,928
Actual return on plan assets	**884**	567	457
Actual contribution	**320**	633	883
Actual benefits paid	**(590)**	(495)	(819)
Fair value of plan assets at end of year	**5,768**	5,154	4,449
Funded status	**7,546**	2,498	2,475
Unrealized net transition obligation	**(1)**	(61)	(120)
Unrecognized net actuarial loss	**(4,657)**	(162)	(176)
Accrued benefit cost	**2,888**	2,275	2,179
Components of net periodic benefit cost:			
Current service cost	**479**	689	401
Interest cost	**895**	453	539
Expected return on plan assets	**(541)**	(475)	(376)
Amortizations of unrecognized net transition obligation	**58**	59	60
Net periodic benefit cost	**891**	726	624

The weighted average assumptions used to determine pension benefits as at December 31, 2006 and 2005 are as follows:

	2006	2005
Discount rate	**8%**	12%
Rate of increase in compensation	**9%**	9%
Expected rate of return on plan assets	**10%**	10%

As at December 31, 2006 and 2005, the assets of the beneficial trust fund established for the PLDT's pension plan include investments in shares of stocks of PLDT and Piltel with fair values aggregating Php2,185 million and Php1,643 million, which represent about 35% and 29%, respectively, of such beneficial trust fund's net assets available for plan benefits.

The Board of Trustees of the beneficial trust fund uses an investment approach of mixed equity and fixed income investments to maximize the long-term expected return of plan assets. The investment portfolio has been structured to achieve the objective of regular income with capital growth and out-performance of benchmarks. A majority of the investment portfolio consists of fixed income debt securities and various equity securities while the remaining portion consists of multi-currency investments.

The allocation of the fair value of the beneficial trust fund's assets for the PLDT pension plan follows:

	2006	2005	2004
Investments in equity securities	**52%**	44%	33%
Investments in debt and fixed income securities	**23%**	28%	41%
Investments in real estate	**10%**	13%	16%
Investments in mutual funds	**8%**	7%	2%
Investments in temporary placements	**7%**	8%	8%
	100%	100%	100%

PLDT currently expects to make approximately Php509 million of cash contributions to its pension plan in 2007.

Defined Contribution Plan

Contributions to the plan are made based on the employee's years of tenure and range from 5% to 10% of the employee's monthly salary. Additionally, employee has an option to make a personal contribution to the fund, at an amount not exceeding 10% of his monthly salary. The employer then provides an additional contribution to the fund ranging from 10% to 50% of the employee's contribution based on the latter's years of tenure.

The Plan's investment portfolio seeks to achieve regular income and long-term capital growth and consistent performance over its own portfolio benchmark. In order to attain this objective, the trustee's mandate is to invest in a diversified portfolio of bonds and equities, both domestic and international. The portfolio mix is kept at 60% to 90% for fixed income securities while 10% to 40% is allotted to equity securities.

The allocation of the fair value of plan assets for Smart as at December 31, 2006 and 2005 follows:

	2006	2005	2004
Investments in debt securities	**68%**	76%	78%
Investments in equity securities	**29%**	23%	20%
Others	**3%**	1%	2%
	100%	100%	100%

Smart currently expects to make approximately Php109 million of cash contributions to its pension plan in 2007.

Pension Benefit Cost

Total pension benefit cost follows:

	2006	2005	2004
	(in million pesos)		
Expense recognized for defined benefit plans	**891**	726	624
Expense recognized for defined contribution plans	**112**	50	94
Total	**1,003**	776	718

22. Contractual Obligations and Commercial Commitments

Contractual Obligations

The following table discloses our consolidated contractual obligations outstanding as at December 31, 2006:

	Payments Due by Period				
	Total	**Within 1 year**	**2–3 years**	**4–5 years**	**After 5 years**
	(in million pesos)				
Long-term debt[(1)]	85,906	16,322	22,750	6,120	40,714
Long-term lease obligations:					
Capital lease	1,570	1,521	48	1	–
Operating lease	3,420	572	1,158	823	867
Unconditional purchase obligations[(2)]	834	24	49	172	589
Other long-term obligations	1,629	–	1,629	–	–
Total contractual obligations	**93,359**	**18,439**	**25,634**	**7,116**	**42,170**

(1) *Before deducting unamortized debt discount and debt issuance costs.*
(2) *Based on the Amended Air Time Purchase Agreement with AIL.*

Long-term Debt

For a discussion of our long-term debt, see *Note 17 – Interest-bearing Financial Liabilities*.

Long-term Capital Lease Obligations

For the discussion of our long-term capital lease obligations, see *Note 17 – Interest-bearing Financial Liabilities*.

Long-term Operating Lease Obligations

Digital Passage Service Contracts. PLDT has existing Digital Passage Service Contracts with foreign telecommunication administrations for several dedicated circuits to various destinations for ten to 25 years expiring at various dates. As at December 31, 2006, PLDT's aggregate remaining obligation under these contracts amounted to approximately Php6 million.

License Agreement with Mobius Management Systems (Australia) Pty Ltd., or Mobius. PLDT entered into a license agreement with Mobius pursuant to which Mobius has granted PLDT a non-exclusive, non-assignable and non-transferable license for the use of computer software components. Under this agreement, Mobius is also required to provide maintenance services for a period of one year at no additional maintenance charge. PLDT may purchase maintenance services upon expiration of the first year for a fee of 15% of the current published license fee. As at December 31, 2006, PLDT's aggregate remaining obligation under this agreement was approximately Php10 million.

Other Long-term Operating Lease Obligations. The PLDT Group has various long-term lease contracts for periods ranging from two to ten years covering certain offices, warehouses, cell sites telecommunication equipment locations and various office equipment. In particular, Smart has lease obligations amounting to Php3,053 million as at December 31, 2006 in respect of office and cell site rentals with over 3,000 lessors nationwide, PLDT has lease obligations amounting to Php100 million as at December 31, 2006 in respect of office and lot rentals with over 185 lessors nationwide, ePLDT has lease obligations amounting to Php238 million as at December 31, 2006 in respect of certain office space rentals and PLDT Global has lease obligations amounting to Php13 million as at December 31, 2006 in respect of certain office space rentals.

Unconditional Purchase Obligations

Air Time Purchase Agreement with AIL. As discussed in *Note 20 – Related Party Transactions*, PLDT is a party to a Founder NSP Air Time Purchase Agreement entered into with AIL in March 1997, which was amended in December 1998, under which PLDT was granted the exclusive right to sell AIL services as NSP in the Philippines. In exchange, the Air Time Purchase Agreement required PLDT to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing on January 1, 2002, the purported date of commercial operations of the Garuda I Satellite.

In the event that AIL's aggregate billed revenue is less than US$45 million in any given year, the Air Time Purchase Agreement also states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term.

In March 2003, PLDT, together with the other founder NSPs, entered into a Standstill Agreement with AIL. Under the Standstill Agreement, payments made to AIL under the Air Time Purchase Agreement were based on billings of actual usage pending final agreement on the terms of the proposed amendment to the Air Time Purchase Agreement.

On February 10, 2004, notwithstanding the on-going negotiations, AIL advised PLDT of the termination of the Standstill Agreement and the reinstatement of the terms under the original Air Time Purchase Agreement effective on January 1, 2002 following the lapse of the November 15, 2003 deadline set in the Standstill Agreement for the negotiation of a revised Air Time Purchase Agreement.

On June 21, 2004, AIL also sent PLDT a letter citing PLDT in default under the Air Time Purchase Agreement for non-payment of outstanding amounts and for repudiation of its obligations thereunder. PLDT maintains, however, that the termination of the Standstill Agreement and reinstatement of the terms under the original Air Time Purchase Agreement are premature, considering that the discussions or negotiations on the terms of the proposed revised Air Time Purchase Agreement were still pending between the parties, such that it is highly inequitable for AIL to have unilaterally decided to invoke the provisions of the Standstill Agreement and declared PLDT in default.

The Air Time Purchase Agreement provides that the NSP's obligations to make minimum or supplemental air time purchase payments remain in effect until all indebtedness incurred by AIL to finance the AIL System has been repaid. AIL indebtedness consists of: (1) loans with several financial institutions (the "Banks") under the Credit Agreement dated March 12, 1997, as amended from time to time, the latest of which was on December 30, 1998 under the Amended and Restated Credit Agreement signed with the Banks; and (2) amounts owing to MMOC under the Spacecraft Contract dated August 28, 1995, as amended on December 30, 1998.

On September 1, 2006, AIL, PT Asia Cellular Satellite and Inmarsat reached an agreement to pool their resources to develop powerful and novel product and service offerings in the Asian region, founded on their respective mobile satellite communications networks, with (a) Inmarsat performing the role of satellite and network operator and wholesale product and services developer and (b) AIL performing the role of wholesale and retail distributor of products and services.

Inmarsat operates a constellation of geostationary satellites that extend mobile phone, fax and data communications to nearly every part of the world through the services it offers to end users through its established chain of distribution partners and satellite communications service providers.

PLDT likewise signed a Gateway Services Agreement with Inmarsat, whereby PLDT committed to provide gateway infrastructure in Subic Bay up to a maximum amount of US$5 million. In exchange, PLDT will earn US$0.015 per minute for interconnection services to be provided to Inmarsat distribution partners for traffic going through the gateway facility in Subic Bay.

As at December 31, 2006, PLDT's aggregate remaining minimum obligation under the amended Air Time Purchase Agreement was approximately Php834 million.

Other Long-term Obligations

Mandatory Conversion and Purchase of Shares. As discussed in *Note 17 – Interest-bearing Financial Liabilities*, as at December 31, 2006, PLDT had issued a total of 3 million shares of Series V Convertible Preferred Stock, 5 million shares of Series VI Convertible Preferred Stock and 4 million shares of Series VII Convertible Preferred Stock in exchange for a total of 58 million shares of Series K Class I Convertible Preferred Stock of Piltel, pursuant to the debt restructuring plan of Piltel adopted in June 2001.

Each share of Series V, VI and VII Convertible Preferred Stock is convertible at any time at the option of the holder into one PLDT common share. On the date immediately following the seventh anniversary of the issue date of the Series V and Series VI Convertible Preferred Stocks and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted to PLDT common shares. Under a put option exercisable for 30 days, holders of common shares received on mandatory conversion of the Series V, VI and VII Convertible Preferred Stocks will be able to require PLDT to purchase such PLDT common shares for Php1,700 per share, US$36.132 per share, and JP¥4,071.89 per share, respectively.

As at December 31, 2006, 2,675,393 shares of Series V Convertible Preferred Stock, 4,419,916 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. As at December 31, 2006, 46,047 shares of Series V and 875,188 shares of Series VI Convertible Preferred Stocks remained outstanding. The aggregate value of the put option based on outstanding shares as at December 31, 2006 was Php1,629 million which is puttable on June 4, 2008, if all of the outstanding shares of Series V and VI Convertible Preferred Stocks were mandatorily converted and all the common shares were put to PLDT at that time. The market value of the underlying shares of common stock was Php2,349 million, based on the market price of PLDT common shares of Php2,550.00 per share as at December 31, 2006.

Commercial Commitments

As at December 31, 2006, our outstanding commercial commitments, in the form of letters of credit, amounted to Php1,546 million. These commitments will expire within one year.

23. Provisions and Contingencies

As discussed below, we currently expect that going forward, we will pay local franchise taxes on an annual basis and 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, 2006.

NTC Supervision and Regulation Fees, or SRF

Since 1976, PLDT has received assessments from NTC for permit, SRF and other charges pursuant to Section 40 of Commonwealth Act 146, otherwise known as the Public Service Act. As at December 31, 2006, PLDT had paid, since 1994, a total amount of Php2,219 million in SRF, of which Php1,956 million was paid under protest.

PLDT is contesting the manner by which these assessments were calculated and the basis for such calculations. The case is now with the Supreme Court and upon the rules and practice of court, stands submitted for decision.

Local Business and Franchise Tax Assessments

PLDT is presently a party to several cases involving the issue of exemption of PLDT from local franchise and business taxes. PLDT believes, based on the opinion of its legal counsel, that it is exempt from payment of local franchise and business taxes.

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 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 quality 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.

By virtue of the BLGF Ruling, PLDT stopped paying local franchise and business taxes starting with the fourth quarter of 1998 and has filed with certain LGUs claims for tax refund covering the period from the second quarter of 1995 to the third quarter of 1998. PLDT has received assessments for local franchise and business taxes from several cities and provinces following PLDT's decision to stop payment of local franchise and business taxes.

Following a decision of the Supreme Court on March 25, 2003, a judgment in the amount of Php4 million against PLDT involving the City of Davao became final and executory on April 9, 2003, pursuant to which PLDT was declared not exempt from the local franchise tax. Pursuant to the said decision, PLDT has voluntarily paid the total amount of Php15 million for the period from the fourth quarter of 1998 until December 31, 2003, which includes the Php4 million subject of the case. The said amount constitutes only the basic franchise tax due for the said period, excluding surcharges and interest which PLDT is asking the City of Davao, through the local council, to waive. PLDT believes, based on the opinion of its legal counsel, that PLDT is not liable for surcharges and interest considering that the legal issue involved was a difficult one and PLDT's non-payment of the said taxes was made in good faith. On August 2, 2005, the local Sanggunian passed a resolution denying PLDT's request for abatement of surcharges and penalties and directing the City Treasurer to update PLDT's liability and immediately collect the same. Accordingly, on August 26, 2005, the city treasurer issued an assessment to PLDT in the amount of Php12 million. In order to maintain and preserve its good standing and relationship with the City of Davao, PLDT has paid the surcharges and penalties as at December 31, 2005.

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, PLDT has paid a total amount of Php590 million for local franchise tax covering prior periods up to the end of 2005 as at December 31, 2006.

PLDT no longer had contested assessments from LGUs for franchise taxes as at December 31, 2006.

PLDT currently expects that going forward it will pay local franchise and business taxes on an annual basis and based on the gross receipts received or collected for services rendered within the jurisdiction of the respective taxing authority.

Smart has paid local business and franchise tax to certain cities and provinces in the aggregate amount of Php313 million under protest. The Smart's legal position is that it is not liable to pay the local franchise tax by virtue of its legislative franchise under R.A. 7294 which took effect after the effective date of the Local Government Code of 1991 or R.A. 7160.

The Regional Trial Court, or RTC, of Makati has declared Smart exempt from payment of local franchise tax to the City of Makati in a decision entitled *Smart Communications, Inc. vs. City of Makati* (Civil Cases No. 02-249 & 02-725, August 3, 2004) dated August 3, 2004. The City of Makati filed a Motion for Extension to file a Petition for Review with the Court of Appeals. However, on June 9, 2005, the Court of Appeals dismissed the appeal filed by the City of Makati.

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. The City of Iloilo filed an appeal directly with the Supreme Court which remains pending.

Piltel's Bureau of Internal Revenue, or BIR, Assessment

Piltel received the following assessment notices from the BIR:

Year	Tax Assessment Type	Basic	Interest	Total
			(in million pesos)	
1998	VAT	85.8	68.7	154.5
	Overseas Communications Tax, or OCT	31.8	25.5	57.3
	Income Tax	12.4	9.4	21.8
	Administrative Penalties	0.1	–	0.1
1999	VAT	94.5	67.8	162.3
	Income Tax	22.7	13.8	36.5
2001	VAT	56.2	35.1	91.3
	Income Tax	13.4	8.9	22.3

On December 12, 2005, Piltel filed a collective application for a compromise settlement with the BIR for the deficiency tax assessments arising from taxable years 1998, 1999 and 2001, citing "reasonable doubt as to the validity of the tax assessments" as a basis. The prescribed minimum percentage of the compromise settlement for such basis is 40% of the basic assessed tax.

On January 27, 2006, Piltel received the favorable recommendation and approval from the BIR on the said application for a compromise settlement. On January 31, 2006, Piltel settled the total amount of Php114 million, which is equivalent to 40% of the basic taxes per final assessment notices received, to effect the immediate cancellation of the tax assessments. On February 24, 2006, the BIR accepted Piltel's application for compromise settlement of income tax and VAT for the years 1998 and 1999, and income taxes and VAT for the year 2001, and issued the Certificate of Availment on the said date.

Enhanced Voluntary Assessment Program, or EVAP, Availment

In 2005, the BIR launched the EVAP which grants taxpayers, who availed themselves of the program and are qualified, the privilege of the last priority in BIR audit and investigation. The EVAP apply to all internal revenue taxes covering the taxable year ending December 31, 2004 and all prior years, including one-time transactions such as estate tax, donor's tax, capital gains tax, expanded withholding tax and documentary stamp tax on the transfer, sale, exchange, or disposition of assets, and shall likewise cover taxpayers enjoying preferential tax treatment. A taxpayer who has availed of the EVAP and is qualified to avail shall not be audited except upon prior authorization and approval of the Commissioner of Internal Revenue when there is strong evidence or finding of understatement in the payment of a taxpayer's correct tax liability by more than 30% as supported by a written report of the appropriate office stating in detail the facts and the law on which such finding is based: Provided, however, that any EVAP payment should be allowed as tax credit against the deficiency tax due, if any, in case the concerned taxpayer has been subjected to tax audit.

PLDT availed itself of the program and paid a total of Php6 million for VAT and income tax for taxable year 2004, and VAT and withholding tax for taxable year 2002.

Maratel availed itself of the EVAP for income tax for the taxable year 2004, SubicTel availed the program for its income tax, withholding tax and percentage tax for taxable year 2002 and ClarkTel availed of the program for its income tax for both taxable years 2003 and 2004. The total payment of Maratel, SubicTel and ClarkTel amounted to Php800,000. Smart's EVAP availment for which Php53 million was paid, covered the income tax for the taxable years 2003 and 2004, the VAT for the taxable year 2002, the OCT for the year 2002, and the withholding taxes for the taxable years 2002, 2003 and 2004. Meanwhile, Piltel's EVAP availment, which involved payment of Php3 million, covered the income tax for the taxable year 2003 and the expanded withholding tax for the taxable years 2003 and 2004. On August 2, 2006, Smart received its Certificate of Qualification, or CQ, for the EVAP availment for income tax, VAT, OCT and withholding taxes for taxable year 2002.

With the exception of SubicTel and ClarkTel whose EVAP CQ were issued on September 13, 2006 and December 10, 2006, respectively, PLDT and other subsidiaries are awaiting the EVAP CQ to be issued by the BIR.

Improved Voluntary Assessment Program, or IVAP, Availment

In 2006, the BIR launched the IVAP which similarly grants taxpayers who availed themselves of the program and are qualified, the privilege of the last priority in BIR audit and investigation. The IVAP applies to all internal revenue taxes covering the taxable year ending December 31, 2005 and fiscal year ending on any day not later than June 30 2006 and all prior years, including one-time transactions such as estate tax, donor's tax, capital gains tax, expanded withholding tax and documentary stamp tax on the transfer, sale, exchange, or disposition of assets, and shall likewise cover taxpayers enjoying preferential tax treatment. Unlike the EVAP, however, where the taxpayers only enjoy the privilege of last priority in audit, with the IVAP, taxpayers who availed themselves of the same will no longer be subject to tax audit except only in the case of fraud manifested through understatement of the correct tax liability by more than 30%.

Smart availed itself of the IVAP for the income tax and VAT for the taxable year 2005 and paid a total amount of Php40 million to the BIR.

Maratel availed itself of the IVAP for the taxable years 2004 and 2005 for its income, VAT, percentage and withholding taxes, while SubicTel availed itself of the program for the taxable year 2004 for its income and value added taxes only and for the taxable year 2005, for its income, VAT and withholding taxes. ClarkTel availed itself of the IVAP for the taxable years 2003, 2004, 2005 for income and withholding taxes except for income taxes for taxable years 2003 and 2004 where an EVAP CQ covering these taxable periods was already issued. The total collective IVAP payments for Maratel, SubicTel and ClarkTel amounted to Php12 million.

Air Time Purchase Agreement with AIL

As discussed in *Note 22 – Contractual Obligations and Commercial Commitments,* PLDT is a party to a Founder NSP Air Time Purchase Agreement entered into with AIL in March 1997, which was amended in December 1998, under which PLDT was granted the exclusive right to sell AIL services as NSP in the Philippines. In exchange, the Air Time Purchase Agreement required PLDT to purchase from AIL a minimum of US$5 million worth of air time annually over ten years commencing on January 1, 2002, the purported date of commercial operations of the Garuda I Satellite.

In the event that AIL's aggregate billed revenue is less than US$45 million in any given year, the Air Time Purchase Agreement also states that PLDT has to make supplemental air time purchase payments not to exceed US$15 million per year during the ten-year term.

In March 2003, PLDT, together with the other founder NSPs, entered into a Standstill Agreement with AIL. Under the Standstill Agreement, payments made to AIL under the Air Time Purchase Agreement were based on billings of actual usage pending final agreement on the terms of the proposed amendment to the Air Time Purchase Agreement.

On February 10, 2004, notwithstanding the on-going negotiations, AIL advised PLDT of the termination of the Standstill Agreement and the reinstatement of the terms under the original Air Time Purchase

Agreement effective on January 1, 2002 following the lapse of the November 15, 2003 deadline set in the Standstill Agreement for the negotiation of a revised Air Time Purchase Agreement.

On June 21, 2004, AIL also sent PLDT a letter citing PLDT in default under the Air Time Purchase Agreement for non-payment of outstanding amounts and for repudiation of its obligations thereunder. PLDT maintains, however, that the termination of the Standstill Agreement and reinstatement of the terms under the original Air Time Purchase Agreement are premature, considering that the discussions or negotiations on the terms of the proposed revised Air Time Purchase Agreement were still pending between the parties, such that it is highly inequitable for AIL to have unilaterally decided to invoke the provisions of the Standstill Agreement and declared PLDT in default.

The Air Time Purchase Agreement provides that the NSPs obligations to make minimum or supplemental air time purchase payments remain in effect until all indebtedness incurred by AIL to finance the AIL System has been repaid. AIL indebtedness consists of: (1) loans with several financial institutions (the "Banks") under the Credit Agreement dated March 12, 1997, as amended from time to time, the latest of which was on December 30, 1998 under the Amended and Restated Credit Agreement signed with the Banks; and (2) amounts owing to MMOC under the Spacecraft Contract dated August 28, 1995, as amended on December 30, 1998.

In 2003, the Accounting Standards Council, or ASC, approved the adoption of Statement Financial Accounting Standards, or SFAS, *37/IAS 37, "Provisions, Contingent Liabilities and Contingent Assets"*, which became effective in the Philippines for financial statements covering periods beginning on or after January 1, 2003.

PLDT's cost of air time usage per year is significantly less than the US$20 million per year minimum and supplemental payments required under the Air Time Purchase Agreement.

Under SFAS 37/IAS 37, the Air Time Purchase Agreement was classified as "onerous contract". As required by SFAS 37/IAS 37 "if an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision". SFAS 37/IAS 37 "defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it."

PLDT's estimated share on AIL discounted cash shortfall to meet its obligations to the Banks and MMOC is determined to be the least net cost of exiting from the Air Time Purchase Agreement, which is lower than the total obligations under the Air Time Purchase Agreement.

The adoption of SFAS 37/IAS 37 in 2003 prescribes the retroactive adjustment to the opening balance of retained earnings for the period in which the standard is first adopted. As allowed under the transitory provisions, we elected not to adjust the opening balance of retained earnings for the earliest period presented and not to restate comparative numbers.

Total cumulative provision for onerous contract amounted to US$79 million as at December 31, 2006.

On September 1, 2006, AIL, PT Asia Cellular Satellite and Inmarsat reached an agreement to pool their resources to develop product and service offerings in the Asian region, founded on their respective mobile satellite communications networks, with (a) Inmarsat performing the role of satellite and network operator and wholesale product and services developer and (b) AIL performing the role of wholesale and retail distributor of products and services.

Inmarsat operates a constellation of geostationary satellites that extend mobile phone, fax and data communications to nearly every part of the world through the services it offers to end users through its established chain of distribution partners and satellite communications service providers.

To formalize the terms of this agreement, Inmarsat signed various agreements with AIL, including a Master Agreement, Service Continuity and Spectrum Access Agreements, User Terminal and IPR Agreements, a BGAN Services Distribution Agreement, a Trade Mark License Agreement, an Existing ACeS Services Distribution Agreement, a Voice Services Distribution Agreement, a Terminal Supply Agreement and a Commercial Framework Agreement. In addition, PT Asia Cellular Satellite also entered into certain business collaboration arrangement with Inmarsat.

The collaboration agreement with Inmarsat provided business opportunities for new services and continuity. In addition, Inmarsat committed to pay US$15 million over 5 years for the use of AIL spectrum.

PLDT likewise signed a Gateway Services Agreement with Inmarsat, whereby PLDT committed to provide gateway infrastructure in Subic Bay up to a maximum amount of US$5 million. In exchange, PLDT will earn US$0.015 per minute for interconnection services to be provided to Inmarsat distribution partners for traffic going through the gateway facility in Subic Bay.

On September 1, 2006, AIL and PT Asia Cellular Satellite signed a Term Sheet, or Banks Term Sheet, with a majority of the banks that will be used as the basis for further good faith negotiations between the parties thereto with a view to entering into an agreement further amending the Amended and Restated Credit Agreement with AIL's bank creditors.

Under the Banks Term Sheet, a majority of the banks agreed, subject to satisfaction of certain conditions, among other things, to amend the Founder NSP Air Time Purchase Agreement and to re-denominate AIL debt into non-interest bearing subordinated convertible bonds maturing in 2015; to amortize a senior term loan with a final maturity on August 1, 2013 and a junior term loan with bullet payments on August 1, 2014 and 2015.

Pursuant to the business collaboration arrangements between AIL and Inmarsat, on September 1, 2006, Inmarsat made the first payment of US$4 million to AIL which was used to pay principal and interest payable to the banks in accordance with the Banks Term Sheet.

On February 1, 2007, PLDT (through ACeS Philippines) signed an agreement to purchase LMGT and MMOC's 50% equity and debt interest in AIL, respectively, for US$750,000 in accordance with a notice of proposed transfer issued by LMGT dated December 22, 2006 pursuant to a right of first refusal under the AIL Shareholders' Agreement.

The Air Time Purchase Agreement, as amended, will no longer qualify as an onerous contract under the provision of PAS 37 since the cost of meeting the obligations under the amended Air Time Purchase Agreement is below or within the estimated benefits that PLDT is expected to receive under it. Net provision for onerous contract amounting to US$72 million (Php3,529 million) was reversed on December 31, 2006, excluding the amount paid or to be paid in relation to the amendment of the Air Time Purchase Agreement.

Movements of provisions for onerous contracts for Air Time Purchase Agreement are as follows:

	2006	2005
	(in million pesos)	
Balance at beginning of year	**3,966**	3,951
Accretion – net of foreign exchange revaluation	**(82)**	15
Expected settlements (included under accounts payable and accrued expenses and other current liabilities)	**(355)**	–
Gain on reversal of provision for onerous contracts (Notes 5, 20 and 22)	**(3,529)**	–
Balance at end of year	**–**	3,966

24. Financial Assets and Liabilities

Our financial assets and liabilities are recognized initially at fair value. Transaction costs (debt issuance costs) are included in the initial measurement of all financial assets and liabilities except those classified as financial instruments measured at fair value through profit and loss. Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using the effective interest rate method or at fair value depending on classification.

The following table sets forth the carrying values and estimated fair values of our financial assets and liabilities recognized as at December 31, 2006 and 2005. There are no material unrecognized financial assets and liabilities as at December 31, 2006 and 2005.

	Carrying Value		**Fair Value**	
	2006	2005	**2006**	2005
	(in million pesos)			
Noncurrent Financial Assets				
Investments-available-for-sale	**116**	109	**116**	109
Derivative assets	**434**	2,648	**434**	2,648
Notes receivable	**–**	346	**–**	346
Total noncurrent financial assets	**550**	3,103	**550**	3,103
Current Financial Assets				
Cash and cash equivalents	**16,870**	30,059	**16,870**	30,059
Short-term investments	**8,327**	2,750	**8,327**	2,750
Trade and other receivables	**10,158**	7,856	**10,158**	7,856
Derivative assets	**47**	37	**47**	37
Total current financial assets	**35,402**	40,702	**35,402**	40,702
Total Financial Assets	**35,952**	43,805	**35,952**	43,805
Noncurrent Financial Liabilities				
Long-term debt - net of current portion*	**63,769**	84,860	**70,414**	92,811
Obligations under capital lease*	**106**	344	**106**	344
Preferred stock subject to mandatory redemption*	**1,369**	11,974	**1,528**	14,053
Derivative liabilities	**6,872**	5,777	**6,872**	5,777
Total noncurrent financial liabilities	**72,116**	102,955	**78,920**	112,985
Current Financial Liabilities				
Accounts payable	**8,634**	15,966	**8,634**	15,966
Notes payable*	**201**	–	**201**	–
Derivative liabilities	**108**	192	**108**	192
Current portion of long-term debt*	**16,184**	18,684	**17,513**	19,435
Obligations under capital lease*	**924**	754	**924**	754
Total current financial liabilities	**26,051**	35,596	**27,380**	36,347
Total Financial Liabilities	**98,167**	138,551	**106,300**	149,332

* *Included under "Interest-bearing Financial Liabilities" in the consolidated balance sheets.*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Interest-bearing Financial Liabilities:

Long-term debt: Fair value is based on the following:

Debt Type	**Fair Value Assumptions**
Fixed Rate Loans:	
U.S. dollar notes/convertible debt	Quoted market price.
Other loans in all other currencies	Estimated fair value is based on the discounted value of future cash flows using the applicable LIBOR and MART1 rates for similar types of loans.
Variable Rate Loans	The carrying value approximates fair value because of recent and regular repricing based on market conditions.

Preferred stock subject to mandatory redemption: The fair values were determined using a discounted cash flow model.

Derivative financial instruments:

Forward foreign exchange contracts and bifurcated foreign currency forwards: The fair values were determined using forward exchange market rates at the balance sheet date.

Foreign currency options: The fair values were computed using an option pricing model.

Foreign currency and interest rate swaps: The fair values were computed as the present value of estimated future cash flows.

Bifurcated equity call options: The fair values were computed using an option pricing model.

Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments, trade and other receivables, notes payable and accounts payable approximate the carrying amounts as of the balance sheet date.

Financial assets and liabilities carried at amortized cost

Unamortized debt discount, representing debt issuance cost and any difference between the fair value of consideration given or received on initial recognition, included in following financial liabilities amounted to Php6,753 million and Php13,347 million as at December 31, 2006 and 2005, respectively, see *Note 17 – Interest-bearing Financial Liabilities.*

Financial assets and liabilities carried at fair value

The following financial assets and liabilities were carried at fair value as at December 31, 2006 and 2005.

	2006	2005
	(in million pesos)	
Investments-available-for-sale	**116**	109
Derivative financial instruments	**(6,499)**	(3,284)
	(6,383)	(3,175)

Derivative Financial Instruments

Our derivative financial instruments are accounted for as either cash flow hedges or transactions not designated as hedges. Cash flow hedges refer to those transactions that hedge our exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability. Changes in the fair value of these instruments representing effective hedges are recognized as cumulative translation adjustments in equity until the hedged item is recognized in earnings. For transactions that are not designated as hedges, any gains or losses arising from the changes in fair value are recognized directly to income for the period.

The table below sets out the information about our derivative financial instruments as at December 31, 2006 and 2005:

		2006		2005	
	Maturity	**Notional**	**Mark-to-market Gain (Loss)**	Notional	Mark-to-market Gain (Loss)
			(in millions)		
PLDT					
Cash flow hedges:					
Long-term currency swaps					
	2017	**US$300**	**(Php2,716)**	US$300	Php417
	2012	**250**	**(2,475)**	250	(428)
Long-term foreign currency options	2009	**167**	**(747)**	175	301
Transactions not designated as hedges:					
Long-term foreign currency options	2009	**167**[(1)]	**138**	175[(1)]	(270)
Short-term currency options	2007	**7**	**(6)**	JP¥151	(2)
Interest rate swap	2012	**63**	**(423)**	US$125	(1,569)
Forward foreign exchange contracts	2007	**202**	**(90)**	220	(169)
		–		JP¥1,282	7
Bifurcated equity call options	2008	**1 share**	**(224)**	8 shares	(1,597)
			(Php6,543)		(Php3,310)
Smart					
Transactions not designated as hedges:					
Bifurcated embedded derivatives	2007	**US$15**	**44**	US$9	26
Net liabilities			**(Php6,499)**		(Php3,284)

(1) Non-hedged portion of 2009 long-term foreign currency options based on the same notional amount as the hedged portion.

	2006	2005
	(in million pesos)	
Presented as:		
Noncurrent assets	**434**	2,648
Current assets	**47**	37
Noncurrent liabilities	**(6,872)**	(5,777)
Current liabilities	**(108)**	(192)
Net liabilities	**(6,499)**	(3,284)

Cumulative translation adjustments as at December 31, 2006 and 2005 consists of:

	2006	2005
	(in million pesos)	
Cumulative translation adjustments at beginning of year	**1,253**	362
Movements of cumulative translation adjustments:		
Deferred income tax effects on cash flow hedges	**1,088**	(427)
Currency translation differences	**(535)**	(62)
Net (loss) gain on available-for-sale financial assets	**(5)**	4
Net gain on cash flow hedges removed from cumulative translation adjustments and taken to income	**2,855**	2,390
Net loss on cash flow hedges	**(6,452)**	(1,014)
	(3,049)	891
Cumulative translation adjustments at end of year	**(1,796)**	1,253

Analysis of loss on derivative transactions for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005	2004
		(in million pesos)	
Net mark-to-market loss at end of year	**(6,499)**	(3,284)	(2,953)
Net mark-to-market loss at beginning of year	**(3,284)**	(2,953)	(2,205)
Net change	**(3,215)**	(331)	(748)
Net loss charged to cumulative translation adjustments	**6,452**	1,014	159
Settlements, accretion and conversion	**(3,642)**	(1,311)	(275)
Net loss on derivative transactions (Note 5)	**(405)**	(628)	(864)

PLDT

Cash Flow Hedges

Long-term Currency Swaps

PLDT entered into long-term principal only currency swap agreements with various foreign counterparties to hedge the currency risk on its fixed rate notes maturing in 2009, 2012 and 2017. As at December 31, 2006 and 2005, these long-term currency swaps have an aggregate notional amount of US$550 million. Under the swaps, PLDT effectively exchanges the principal of its U.S. dollar-denominated fixed rate notes into Philippine peso-denominated loan exposures at agreed swap exchange rates. The agreed swap exchange rates are reset to the lowest U.S. dollar/Philippine peso spot exchange rate during the term of the swaps, subject to a minimum exchange rate. In March and April 2004, PLDT entered into amendments to keep the lowest reset exchange rate and unwind the downward resettable feature of US$550 million of its long-term principal only currency swap agreements in order to lower the running hedging cost of the swaps. As at December 31, 2006 and 2005, the outstanding swap contracts have an agreed average swap exchange rate of Php50.76.

In order to manage hedge costs, these swaps included a credit-linkage feature with PLDT as the reference entity. The specified credit events include bankruptcy, failure to pay, obligation acceleration, moratorium/repudiation, and restructuring of PLDT bonds or all or substantially all of PLDT's obligations. Upon the occurrence of any of these credit events, subject to agreed threshold amounts where applicable, the obligations to both PLDT and its counterparty under the swap contracts terminate without further settlements to either party, including any mark-to-market value of the swaps. As at December 31, 2006 and 2005, US$717 million and US$725 million, respectively, of PLDT's long-term currency swaps/options have been structured to include credit-linkage with PLDT as the reference entity.

The semi-annual fixed or floating swap cost payments that PLDT is required to make to its counterparties averaged about 5.18% and 4.50% per annum as at December 31, 2006 and 2005, respectively. As cash flow hedges, any movements in the fair value of these instruments will be taken as a cumulative translation adjustment under equity in our consolidated balance sheets.

Long-term Foreign Currency Options

To manage hedging costs, the currency swap agreement relating to the 2009 fixed rate notes has been structured to include currency option contracts. If the Philippine peso to U.S. dollar spot exchange rate on maturity date settles beyond Php90.00 to US$1.00, PLDT will have to purchase U.S. dollar at an exchange rate of Php52.50 to US$1.00 plus the excess above the agreed threshold rate. On the other hand, if on maturity, the Philippine peso to U.S. dollar spot exchange rate is lower than the exchange rate of Php52.50 to US$1.00, PLDT will have the option to purchase at the prevailing Philippine peso to U.S. dollar spot exchange rate. In July 2004, PLDT and its counterparty, agreed to re-document and re-classify the transaction into long-term currency option contracts. The net semi-annual floating hedge cost payments that PLDT is required to pay under these transactions was approximately 6.17% and 5.68% per annum as at December 31, 2006 and 2005, respectively.

The option currency contract relating to PLDT's option to purchase U.S. dollar at Php52.50 to US$1.00 or prevailing spot exchange rate at maturity, whichever is lower, qualifies as a cash flow hedge. The option currency contract relating to the counterparty's option to purchase foreign currency from PLDT at Php90.00 to US$1.00 is not designated as a hedge. Please refer to discussion below (under transactions not designated as hedges).

In December 2006, the currency swap agreements were partially terminated, which effectively lowered the outstanding currency options notional amount to US$167 million. Total amounts settled for the unwinding is Php40 million.

Transactions Not Designated as Hedges

Due to the amounts of PLDT's foreign currency hedging requirements and the large interest differential between the Philippine peso and the U.S. dollar, the costs to book long-term hedges can be significant. In order to manage such hedging costs, PLDT utilizes structures that include currency option contracts, and fixed-to-floating coupon-only swaps that may not qualify for hedge accounting.

Long-term Foreign Currency Options

With reference to the above-mentioned hedge on PLDT's 2009 fixed rate notes, PLDT simultaneously sold a currency option contract with the same notional amount of US$175 million with the same maturity that gives the counterparty a right to purchase foreign currency at Php90.00 to US$1.00. Together with the long-term currency option contract classified under cash flow hedges, PLDT has the obligation to purchase U.S. dollars at an exchange rate of Php52.50 to US$1.00 plus the excess above the agreed threshold rate. In exchange for this condition, the overall net hedging cost for the transaction is reduced. In December 2006, the currency swap agreements were partially terminated, which lowered the notional amount to US$167 million. Since charges in fair value have already been recognized as profit and loss in prior periods, the corresponding proceeds from the partial termination of the currency option contract amounted to Php7 million.

Short-term Currency Options

PLDT entered into short-term U.S. dollar subsidized forward contracts to partially hedge PLDT's fixed rate notes due June 2006. In order to reduce overall net hedging cost for the transactions, these forward contracts have been structured to include the sale of currency call option contracts that give the counterparty the right to purchase foreign currency at an agreed exchange rate. PLDT effectively has the obligation to buy U.S. dollars at a subsidized forward rate plus any excess above the agreed threshold rate should the Philippine peso to U.S. dollars spot exchange rate on the maturity date settle beyond that agreed threshold. PLDT's subsidized forward contracts amounting to US$62 million matured on June 29, 2006. As at December 31, 2006, there were no outstanding subsidized forward contracts.

PLDT also entered into short-term U.S. dollar and Japanese yen currency option contracts to hedge our other short-term foreign currency obligations. As at December 31, 2006, the outstanding U.S. dollar currency option contracts amounted to US$8 million with an average exchange rate of US$50.40. PLDT's Japanese yen currency option contracts amounting to JP¥5,410 million matured on September 21, 2006. As at December 31, 2006, there were no outstanding Japanese yen currency option contracts.

Interest Rate Swap

A portion of PLDT's currency swap agreements to hedge its 2017 fixed rate notes carry fixed rate swap cost payments. To effectively lower the running cost of such swap agreements, PLDT, in April 2003, entered into an agreement to swap the coupon on US$125 million of its 2012 fixed rate notes into a floating rate Japanese yen amount. Under this agreement, PLDT is entitled to receive a fixed coupon rate of 11.375%, provided the Japanese yen to U.S. dollar exchange rate stays above JP¥99.90 to US$1.00. Below this level, a reduced fixed coupon rate of 3% will be due to PLDT. In order to mitigate the risk of the Japanese yen strengthening below the agreed threshold, PLDT, in December 2003, entered into an overlay swap transaction to effectively lower the portion of the coupon indexed to the U.S. dollar to Japanese yen rate to 3% such that the fixed coupon rate due to PLDT when the Japanese yen strengthens below the agreed threshold will be 8.375%. Both swap agreements include a credit-linkage feature with PLDT as the reference entity.

In March 2006, the interest rate and overlay swap agreements were partially terminated to effectively lower the outstanding interest rate swap notional amount to US$62.5 million. Since changes in fair values have already been recognized as profit and loss in prior periods, the corresponding liability settled by PLDT amounted to Php804 million.

Forward Foreign Exchange Contracts

PLDT entered into short-term U.S. dollar and Japanese yen forward foreign exchange contracts to hedge short-term foreign currency obligations. As at December 31, 2006, outstanding forward foreign exchange contracts amounted to US$202 million with an average exchange rate of Php49.50. There were no outstanding JP¥ forward foreign exchange contracts as at December 31, 2006.

Bifurcated Equity Call Options

Pursuant to Piltel's debt restructuring plan, PLDT issued its Series VI and VII Convertible Preferred Stock, see *Note 17 – Interest-bearing Financial Liabilities*. Each share of Series VI and VII Convertible Preferred Stock is convertible at any time at the option of the holder into one share of PLDT's common stock. On the date immediately following the seventh anniversary of the issue date of the Series VI Convertible Preferred Stock and on the eighth anniversary of the issue date of the Series VII Convertible Preferred Stock, the remaining outstanding shares under these series will be mandatorily converted into shares of PLDT common stock. For 30 days thereafter, the holders of these mandatorily converted shares of common stock have the option to sell such shares of common stock back to PLDT for US$36.132 per share and JP¥4,071.89 per share for Series VI and VII, respectively. On August 18, 2006, all 3,842,000 shares of Series VII shares were converted to PLDT common stock. As at December 31, 2006 and 2005, the negative fair market value of these embedded call options amounted to Php224 million and Php1,597 million, respectively.

Smart

Smart's other embedded derivatives were bifurcated from service and purchase contracts. As at December 31, 2006 and 2005, outstanding contracts included service contract with foreign equipment suppliers and various suppliers covering handset importations denominated in U.S. dollars, which is not the functional currency of a substantial party to the contract or the routine currency of the transaction.

Financial Risk Management Objectives and Policies

The main purpose of our financial instruments is to fund our operations. We also enter into derivative transactions, the purpose of which is to manage the currency risks and interest rate risks arising from our operations and our sources of financing. It is, and has been throughout the year under review, our policy that no trading in financial instruments shall be undertaken.

The main risks arising from our financial instruments are liquidity risk, foreign exchange risk, interest rate risk and credit risk. Our Board reviews and approves policies for managing each of these risks. These risks are summarized below. We also monitor the market price risk arising from all financial instruments. Our accounting policies in relation to derivatives are set out in *Note 2 – Summary of Significant Accounting Policies and Practices*.

Liquidity Risk

We seek to manage our liquidity profile to be able to finance our capital expenditures and service our maturing debts. To cover our financing requirements, we currently intend to use internally generated funds and proceeds from debt and equity issues and sales of certain assets.

As part of our liquidity risk management program, we regularly evaluate our projected and actual cash flow information and continuously assess conditions in the financial markets for opportunities to pursue fund-raising initiatives. These initiatives may include bank loans, export credit agency-guaranteed facilities, and debt capital and equity market issues.

Foreign Exchange Risk

The following table shows our consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as at December 31, 2006 and 2005:

	2006		2005	
	U.S. Dollar	**Php Equivalent**(1)	U.S. Dollar	Php Equivalent(2)
	(in millions)			
Noncurrent Financial Assets				
Derivative assets	**US$9**	**Php434**	US$50	Php2,648
Notes receivable	**–**	**–**	6	346
Total noncurrent financial assets	**9**	**434**	56	2,994
Current Financial Assets				
Cash and cash equivalents	**155**	**7,578**	248	13,160
Short-term investments	**92**	**4,521**	51	2,731
Trade and other receivables	**252**	**12,348**	139	7,371
Derivative assets	**1**	**47**	1	37
Total current financial assets	**500**	**24,494**	439	23,299
Total Financial Assets	**US$509**	**Php24,928**	US$495	Php26,293

	2006		2005	
	U.S. Dollar	**Php Equivalent**[(1)]	U.S. Dollar	Php Equivalent[(2)]
	(in millions)			
Noncurrent Financial Liabilities				
Interest-bearing financial liabilities – net of current portion	**US$1,239**	**Php60,746**	US$1,809	Php95,953
Derivative liabilities	**140**	**6,872**	109	5,777
Total noncurrent financial liabilities	**1,379**	**67,618**	1,918	101,730
Current Financial Liabilities				
Accounts payable	**122**	**5,968**	42	2,227
Accrued expenses and other current liabilities	**208**	**10,194**	68	3,587
Derivative liabilities	**2**	**108**	3	192
Current portion of interest-bearing financial liabilities	**328**	**16,100**	319	16,946
Total current financial liabilities	**660**	**32,370**	432	22,952
Total Financial Liabilities	**US$2,039**	**Php99,988**	US$2,350	Php124,682

(1) *The exchange rate used was Php49.045 to US$1.00.*
(2) *The exchange rate used was Php53.062 to US$1.00.*

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were Php49.045 to US$1.00 and Php53.062 to US$1.00, the Philippine peso-U.S. dollar exchange rates as at December 31, 2006 and 2005, respectively.

As at April 13, 2007, the peso-dollar exchange rate was Php47.995 to US$1.00. Using this exchange rate, our consolidated net foreign currency-denominated liabilities as at December 31, 2006 would have decreased by Php1,607 million.

While a certain percentage of our revenues is either linked to or denominated in U.S. dollars, substantially all of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our operating expenses are denominated in foreign currencies, mostly in U.S. dollars.

As at December 31, 2006, approximately 96% of our total consolidated debts were denominated in foreign currencies, principally in U.S. dollars. Thus, a strengthening or weakening of the Philippine peso against the U.S. dollar will decrease or increase both the principal amount of our unhedged foreign currency-denominated debts (representing 43% of our consolidated debts, or 31% net of our U.S. dollar cash balances as at December 31, 2006), and interest expense on our debt in Philippine peso terms. In addition, many of our financial ratios and other financial tests are affected by the movements in the Philippine peso to U.S. dollar exchange rate.

To manage our foreign exchange risks, stabilize cash flows, and improve investment and cash flow planning, we enter into forward foreign exchange contracts, foreign currency swap contracts, currency option contracts and other hedging products aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on our operating results and cash flows. However, these hedges do not cover all of our exposure to foreign exchange risks.

Specifically, we use forward foreign exchange contracts, foreign currency swap contracts and currency option contracts to manage the foreign exchange risk associated with our foreign currency-denominated loans. In order to manage hedge costs of these contracts, we utilize structures that include credit-linkage with PLDT as the reference entity, a combination of currency option contracts, and fixed to floating coupon only swap agreements. Accounted for as either cash flow hedges or transactions not designated as hedges, changes in the fair value of these financial instruments are recognized as cumulative translation adjustments in equity until the hedged item is recognized directly as income or expense for the period.

Interest Rate Risk

On a limited basis, we enter into interest rate swap agreements in order to manage our exposure to interest rate fluctuations. We make use of hedging instruments and structures solely for reducing or managing financial risks associated with our liabilities and not for trading or speculative purposes.

The following tables set out the carrying amount, by maturity, of our financial instruments that are exposed to interest rate risk:

Year Ended December 31, 2006

	Below 1 year	1-2 years	2 – 3 years	3-5 years	Over 5 years	In U.S. Dollar	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value In U.S. Dollar	Fair Value In Php
									(in millions)		
Liabilities:											
Long-term Debt											
Fixed Rate											
US$ Notes (in millions)	130	–	167	–	550	847	41,510	539	40,971	966	47,349
Interest rate	7.85% to 10.625%	–	10.50%	–	8.35% to 11.375%	–	–	–	–	–	–
US$ Fixed Loans (in millions)	69	55	46	33	280	483	23,683	5,326	18,357	400	19,640
Interest rate	1.75% to 10%	4.49% to 10%	4.49% to 10%	4.515% to 4.70%	2.25%	–	–	–	–	–	–
Philippine Peso (in millions)	–	–	–	17	–	17	810	2	808	21	1,035
Interest rate	–	–	–	15%	–	–	–	–	–	–	–
Variable Rate											
U.S. Dollar (in millions)	128	92	81	53	–	354	17,392	74	17,318	355	17,392
Interest rate	GOVCO's Cost + 0.20%; 0.05% to 2.75% over LIBOR	0.05% to 2.75% over LIBOR	0.05% to 2.75% over LIBOR	0.05% to 2.5% over LIBOR	–	–	–	–	–	–	–
Philippine Peso (in millions)	6	11	11	23	–	51	2,511	12	2,499	51	2,511
Interest rate	3% over 90-day PHIBOR, MART1 + 0.75%	MART1 + 0.75%	MART1 + 0.75%	MART1 + 0.75%	–	–	–	–	–	–	–
						1,752	**85,906**	**5,953**	**79,953**	**1,793**	**87,927**
Interest rate swap (fixed to floating)											
U.S. Dollar (US$63 million)	–	–	–	–	–	9	423	–	–	9	423
Japanese Yen (JP¥7,519 million)	–	–	–	–	–	–	–	–	–	–	–
Fixed Rate on US$ notional	11.375%	11.375%	11.375%	11.375%	11.375%	–	–	–	–	–	–
Variable Rate on JP¥ notional	8.11% over LIBOR	8.11% over LIBOR	8.11% over LIBOR	8.11% over LIBOR	8.11% over LIBOR	–	–	–	–	–	–

Year Ended December 31, 2005

	Below 1 year	1-2 years	2 – 3 years	3-5 years	Over 5 years	In U.S. Dollar	In Php	Discount/ Debt Issuance Cost In Php	Carrying Value In Php	Fair Value In U.S. Dollar	Fair Value In Php
									(in millions)		
Liabilities:											
Long-term Debt											
Fixed Rate											
US$ Notes (in millions)	115	160	–	175	550	1,000	53,040	686	52,354	1,108	58,780
Interest rate	9.25%	7.85% to 10.625%	–	10.50%	8.35% and 11.375%	–	–	–	–	–	–
US$ Fixed Loans (in millions)	64	45	31	22	280	442	23,451	6,356	17,095	327	17,350
Interest rate	4.49% to 7.75%	4.49% to 7.58%	4. 49% to 7.58%	4.49% to 5.65%	2.25%	–	–	–	–	–	–
Japanese Yen (in millions)	23	24	12	–	–	59	3,139	–	3,139	59	3,158
Interest rate	2.125%	2.125%	2.125%	–	–	–	–	–	–	–	–
Philippine Peso (in millions)	17	1	–	15	–	33	1,746	4	1,742	37	1,961
Interest rate	11% to 24%	11% to 24%	–	15.0%	–	–	–	–	–	–	–
Variable Rate											
U.S. Dollar (in millions)	129	143	79	117	94	562	29,806	1,679	28,127	562	29,806
Interest rate	GOVCO's Cost + 0.20%; 0.05% to 3.625% over LIBOR	GOVCO's Cost + 0.20%; 0.05% to 3.625% over LIBOR	0.05% to 3.625% over LIBOR	.05% to 2.5% over LIBOR	1% over LIBOR	–	–	–	–	–	–
Japanese Yen (in millions)	5	5	3	–	–	13	709	1	708	13	709
Interest rate	1.70% over LIBOR	1.70% over LIBOR	1.70% over LIBOR	–	–	–	–	–	–	–	–
Philippine Peso (in millions)	–	–	–	2	7	9	482	103	379	9	482
Interest rate	–	–	–	1% over 91-day T-bill rate	1% over 91-day T-bill rate	–	–	–	–	–	–
						2,118	**112,373**	**8,829**	**103,544**	**2,115**	**112,246**
Interest rate swap (fixed to floating)											
U.S. Dollar (US$125 million)	–	–	–	–	–	30	1,569	–	–	30	1,569
Japanese Yen (JP¥15,037 million)	–	–	–	–	–	–	–	–	–	–	–
Fixed Rate on US$ notional	11.375%	11.375%	11.375%	11.375%	11.375%	–	–	–	–	–	–
Variable Rate on JP¥ notional	8.11% over LIBOR	8.11% over LIBOR	8.11% over LIBOR	8.11% over LIBOR	8.11% over LIBOR	–	–	–	–	–	–

Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk.

Repricing of floating rate financial instruments is mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of instrument. Financial instruments that are not subject to interest rate risk were not included in the above tables.

Credit Risk

We trade only with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis to reduce our exposure to bad debts.

With respect to credit risk arising from our financial assets, which comprise cash and cash equivalents, trade and other receivables, notes receivable and certain derivative financial instruments, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments.

We have no significant concentrations of credit risk.

25. Reclassification of Accounts

Certain accounts in December 31, 2005 and 2004 consolidated financial statements were reclassified to conform with the December 31, 2006 consolidated financial statements presentation.

In addition, certain accounts presented in the 2006 consolidated financial statements attached to our SEC Form 17-Q have been reclassified in our consolidated financial statements in Form 17-A for the year ended December 31, 2006.