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

SEC Number **PW-55**
File Number

PHILIPPINE LONG DISTANCE

TELEPHONE COMPANY

(Company s Full Name)

Ramon Cojuangco Building

Makati Avenue, Makati City

(Company s Address)

(632) 816-8556

(Telephone Number)

Not Applicable

(Fiscal Year Ending)

(month & day)

SEC Form 17-Q

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2007

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

March 4, 2008

Securities and Exchange Commission

Money Market Operations Department

SEC Building, EDSA

Mandaluyong City

Attention: Director Justina Callangan

Corporations Finance Department

Gentlemen:

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

Very truly yours,

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

/s/ Ma. Lourdes C. Rausa-Chan

MA. LOURDES C. RAUSA-CHAN

Corporate Secretary

COVER SHEET

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

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

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

(Company s Full Name)

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

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

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

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

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

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

Total Amount of Borrowings

2,185,395

N/A

As of December 31, 2007 N/A

Total No. of Stockholders Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number		LCU

Document I.D.		Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

SRC 17 (2) (b) THEREUNDER

1. For the quarterly period ended December 31, 2007

-

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

4. Philippine Long Distance Telephone Company

Exact name of registrant as specified in its charter

5. Republic of the Philippines

Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

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

Address of registrant s principal office Postal Code

8. (632) 816-8556

Registrant s telephone number, including area code

9. Not Applicable

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

10. Securities registered pursuant to Sections 8 of the SRC

Title of Each Class Number of Shares of Common Stock Outstanding

-

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

-

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

Yes [X] No [ ]

12. Check whether the registrant

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

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

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

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

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and actual results can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the description of risks and cautionary statements in this report. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere might not occur.

Financial Highlights and Key Performance Indicators

	December 31, 2007	December 31, 2006	Increase (Decrease) Amount	Increase (Decrease) %
(in millions, except for operational data, exchange rates and earnings per common share)				
Consolidated Balance Sheets				
Total assets	Php240,158	Php242,118	(Php1,960)	(1)
Property, plant and equipment net	159,414	164,190	(4,776)	(3)
Cash and cash equivalents and short-term investments	30,862	25,197	5,665	22
Total equity	110,511	102,067	8,444	8
Notes payable and long-term debt	60,640	80,154	(19,514)	(24)
Net debt(1) to equity ratio	0.26x	0.53x		

	Years Ended December 31, 2007 (Unaudited)	Years Ended December 31, 2006(2) (Restated)	Increase (Decrease) Amount	Increase (Decrease) %
Consolidated Statements of Income				
Revenues and other income	Php141,623	Php133,682	Php7,941	6
Expenses	88,366	91,452	(3,086)	(3)
Income before income tax	53,257	42,230	11,027	26
Net income attributable to equity holders of PLDT	36,004	35,138	866	2
Pre-tax income margin	38%	32%		
Net income margin	25%	26%		
Earnings per common share				
Basic	188.42	188.03	0.39	
Diluted	187.53	187.93	(0.40)	
Consolidated Statements of Cash Flows				
Net cash provided by operating activities	77,375	67,759	9,616	14
Net cash used in investing activities	31,319	35,790	(4,471)	(12)
Capital expenditures	*24,824*	*20,674*	*4,150*	*20*
Net cash used in financing activities	44,756	44,428	328	1
Operational Data				
Number of cellular subscribers	30,041,030	24,175,384	5,865,646	24
Number of fixed line subscribers	1,724,602	1,776,547	(51,945)	(3)
Number of broadband subscribers	579,095	264,649	314,446	119
Fixed Line	*264,291*	*133,159*	*131,132*	*98*
Wireless	*314,804*	*131,490*	*183,314*	*139*
Number of employees	30,255	28,225	2,030	7
Fixed Line	*8,080*	*8,711*	*(631)*	*(7)*
Wireless	*5,415*	*5,358*	*57*	*1*
Information and Communications Technology	*16,760*	*14,156*	*2,604*	*18*

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

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

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

Overview

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

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

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

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

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

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

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

Changes in Accounting Policies

Revenue Recognition on Installation Fees

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

Results of Operations

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

	Wireless	Fixed Line	ICT	Inter-segment Transactions	Total

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

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

Wireless

Revenues and Other Income

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

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

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

Service Revenues

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

Cellular Service

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Voice Services

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

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

Data Services

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

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

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

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

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

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

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

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

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

Subscriber Base, ARPU and Churn Rates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Wireless Broadband, Satellite, VSAT and Other Services

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

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

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

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

Non-service Revenues

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

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

Other Income

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

Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision for Income Tax

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

Net Income

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

Fixed Line

Revenues and Other Income

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

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

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

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

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

Service Revenues

Local Exchange Service

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

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

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

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

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

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

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

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

International Long Distance Service

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

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

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

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

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

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

National Long Distance Service

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

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

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

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

Data and Other Network Services

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

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

	Years Ended December 31,

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

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

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

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

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

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

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

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

Miscellaneous

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

Non-service Revenues

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

Other Income

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

Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provision for Income Tax

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

Net Income

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

Information and Communications Technology

Revenues and Other Income

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

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

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

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

Service Revenues

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

Knowledge Processing Solutions (formerly described as Business Process Outsourcing)

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

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

Customer Interaction Services (formerly described as Call Center business)

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

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

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

Internet and Online Gaming

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

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

*Vitro*ä *Data Center*

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

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

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

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

Non-service Revenues

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

Other Income

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

Expenses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Benefit from Income Tax

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

Net Loss

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

Plans and Prospects

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

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

Liquidity and Capital Resources

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

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

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

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

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

Operating Activities

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

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

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

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

Investing Activities

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

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

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

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

Financing Activities

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

Debt Financing

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

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

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

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

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

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

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

Debt Covenants

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

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

Financing Requirements

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

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

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

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

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

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

Credit Ratings

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

PLDT s current credit ratings are as follows:

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

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

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

Off-Balance Sheet Arrangement

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

Equity Financing

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

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

Contractual Obligations and Commercial Commitments

Contractual Obligations

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

Commercial Commitments

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

Quantitative and Qualitative Disclosures about Market Risks

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

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

Impact of Inflation and Changing Prices

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

Related Party Transactions

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

ANNEX AGING OF ACCOUNTS RECEIVABLE

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

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

SIGNATURES

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

Registrant: **PHILIPPINE LONG DISTANCE TELEPHONE COMPANY**

Signature and Title: /s/ Napoleon L. Nazareno

Napoleon L. Nazareno

President and Chief Executive Officer

Signature and Title: /s/ Anabelle Lim-Chua

Anabelle Lim-Chua

Senior Vice President and Treasurer

(Senior Financial Officer)

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

June Cheryl A. Cabal-Furigay

Vice President and Controller

(Principal Accounting Officer)

March 4, 2008

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2007 AND 2006

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

AND

INDEPENDENT AUDITORS   REPORT

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

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

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

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

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (*continued*)

December 31, 2007 and 2006

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

	2007 (Unaudited)	2006 (As restated Note 2)
Noncurrent Liabilities		
Interest-bearing financial liabilities - net of current portion (Notes 2, 8, 18, 24 and 26)	**53,387**	65,244
Deferred income tax liabilities (Notes 2, 4, 6 and 26)	**2,155**	402
Derivative financial liabilities (Notes 2, 24 and 26)	**7,741**	6,872
Pension and other employee benefits (Notes 2, 3, 23 and 26)	**4,540**	2,982
Customers deposits (Note 25)	**2,201**	2,204
Deferred credits and other noncurrent liabilities (Notes 2, 3, 8, 14, 19 and 26)	**9,632**	8,025
Total Noncurrent Liabilities		