

SEC Number 145111
File
Number _____

**DIGITAL TELECOMMUNICATIONS
PHILS., INC. AND SUBSIDIARY**

(Company's Full Name)

**URC Compound, 110 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City**

(Company's Address)

633-00-00

(Telephone Number)

December 31

(Calendar Year Ending)
(month & day)

SEC Form 17-A Annual Report

Form Type

Amendment Designation (if applicable)

December 31, 2000

Period Ended Date

SGVMC401023

(Secondary License Type and File Number)

SGVMC401023

**DIGITAL TELECOMMUNICATIONS PHILS., INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000 AND 1999
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2000

SGVMC401023

**DIGITAL TELECOMMUNICATIONS
PHILS., INC. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2000 AND 1999
AND FOR EACH OF THE THREE YEARS IN THE PERIOD
ENDED DECEMBER 31, 2000

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Report of Independent Public Accountants

The Stockholders and the Board of Directors
Digital Telecommunications Phils., Inc.

We have audited the accompanying consolidated balance sheet of Digital Telecommunications Phils., Inc. and subsidiary as of December 31, 2000 and the parent company balance sheets of Digital Telecommunications Phils., Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income and retained earnings and cash flows for the year ended December 31, 2000, and the parent company statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Digital Telecommunications Phils., Inc. and subsidiary as of December 31, 2000, and the results of their operations and their cash flows for the year ended December 31, 2000, and the financial position of Digital Telecommunications Phils., Inc. as of December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the Philippines.

PTR No. 7738131
January 6, 2001
Makati City

April 2, 2001

SGVMC401023

SGV & Co

Report of Independent Public Accountants

SyCip Gorres Velayo & Co
A member firm of Arthur Andersen

6760 Ayala Avenue
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URC Compound, 110 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

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M. F. GONZALES
Partner
CPA Certificate No. 19597
PTR No. 7738131
January 6, 2001
Makati City

April 2, 2001

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DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARY
BALANCE SHEETS

	Consolidated		Parent Company
	2000	December 31	
		2000	1999
ASSETS			
Current Assets			
Cash and cash equivalents	₱2,474,688,831	₱2,410,614,962	₱4,628,860,152
Accounts receivable:			
Trade	2,588,980,013	2,557,670,317	1,686,464,482
Others	203,917,654	202,173,479	305,401,885
Allowance for doubtful accounts	(546,413,234)	(534,452,202)	(371,433,031)
Materials and supplies	159,358,838	158,968,723	149,820,576
Due from affiliates (Note 8)	1,047,548,154	1,179,584,911	355,941,096
Deferred tax assets - net (Note 9)	189,860,990	186,033,460	114,934,419
Prepaid expenses and other current assets	633,934,297	630,252,585	251,391,471
Total Current Assets	6,751,875,543	6,790,846,235	7,121,381,050
Property, Plant and Equipment - net (Notes 3, 4 and 6)	27,535,499,575	27,530,969,842	24,426,654,157
Other Assets - net (Note 5)	384,649,099	381,997,363	320,374,836
	₱34,672,024,217	₱34,703,813,440	₱31,868,410,043
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Note 11)	₱2,733,638,236	₱2,765,427,459	₱2,284,265,223
Income tax payable	36,552,677	36,552,677	18,852,653
Current portion of long-term liabilities (Notes 3, 4 and 6)	2,505,674,573	2,505,674,573	1,376,537,169
Total Current Liabilities	5,275,865,486	5,307,654,709	3,679,655,045
Deferred Tax Liabilities (Note 9)	348,249,220	348,249,220	341,493,924
Long-term Liabilities - net of current portion (Notes 3, 4 and 6)	17,759,016,687	17,759,016,687	16,563,098,990
Stockholders' Equity			
Capital stock (Note 7)	8,975,749,750	8,975,749,750	8,975,749,750
Retained earnings	2,313,143,074	2,313,143,074	2,308,412,334
	11,288,892,824	11,288,892,824	11,284,162,084
	₱34,672,024,217	₱34,703,813,440	₱31,868,410,043

See accompanying Notes to Financial Statements.

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DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARY
STATEMENTS OF INCOME AND RETAINED EARNINGS

	Consolidated		Parent Company	
	Years Ended December 31			
	2000	2000	1999	1998
OPERATING REVENUES - net (Notes 1, 3, 8 and 12)	₱4,822,972,288	₱4,796,849,855	₱3,677,851,082	₱3,060,110,651
OPERATING EXPENSES				
Operating and general expenses (Notes 3 and 10)	1,511,118,523	1,430,715,085	1,329,025,688	1,029,867,957
Depreciation and amortization (Note 4)	2,091,411,445	2,090,815,418	1,846,285,258	1,320,199,067
	3,602,529,968	3,521,530,503	3,175,310,946	2,350,067,024
INCOME FROM OPERATIONS	1,220,442,320	1,275,319,352	502,540,136	710,043,627
OTHER INCOME (CHARGES)				
Interest income - net (Note 8)	357,786,098	354,821,095	323,299,448	422,240,614
Interest expense and other financing charges (Note 4)	(1,573,922,558)	(1,574,536,449)	(1,060,870,458)	(584,055,366)
Equity in net losses of a subsidiary, including goodwill amortization (Note 11)	—	(50,362,248)	(1,848,239)	—
Miscellaneous	25,080,715	25,329,132	242,950,264	318,815,260
	(1,191,055,745)	(1,244,748,470)	(496,468,985)	157,000,508
INCOME BEFORE INCOME TAX	29,386,575	30,570,882	6,071,151	867,044,135
PROVISION FOR INCOME TAX (Note 9)				
Current	90,776,888	90,183,887	87,656,393	95,952,575
Deferred	(66,121,053)	(64,343,745)	(86,101,590)	167,887,090
	24,655,835	25,840,142	1,554,803	263,839,665
NET INCOME	4,730,740	4,730,740	4,516,348	603,204,470
RETAINED EARNINGS AT BEGINNING OF YEAR	2,308,412,334	2,308,412,334	2,303,895,986	1,700,691,516
RETAINED EARNINGS AT END OF YEAR	₱2,313,143,074	₱2,313,143,074	₱2,308,412,334	₱2,303,895,986
Earnings Per Share (Note 13)	₱0.0007	₱0.0007	₱0.0007	₱0.0949

See accompanying Notes to Financial Statements.

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DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	Years Ended December 31			
	2000	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	₱4,730,740	₱4,730,740	₱4,516,348	₱603,204,470
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,001,109,982	2,000,513,955	1,757,104,925	1,237,790,191
Provision for doubtful accounts	287,194,008	275,911,680	431,840,965	150,933,556
Equity in net losses of a subsidiary	–	50,362,248	1,848,239	–
Amortization of preoperating expenses and deferred charges	90,301,463	90,301,463	89,180,333	82,408,876
Deferred income tax	(66,121,053)	(64,343,745)	(86,101,590)	167,887,090
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	(913,245,105)	(880,869,938)	(366,943,147)	(640,960,364)
Materials and supplies	(9,538,262)	(9,148,147)	73,427,794	(83,061,518)
Prepaid expenses and other current assets	(382,542,826)	(378,861,114)	80,683,455	(86,284,344)
Increase (decrease) in:				
Accounts payable and accrued expenses	447,322,791	430,799,988	(638,230,071)	1,462,219,296
Income tax payable	17,700,024	17,700,024	(478,484)	31,085,782
Net cash provided by operating activities	1,476,911,762	1,537,097,154	1,346,848,767	2,925,223,035
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to property, plant and equipment	(2,001,574,127)	(1,996,448,367)	(4,297,268,083)	(6,830,397,431)
Decrease (increase) in:				
Due from affiliates	(691,607,058)	(823,643,815)	4,342,948,492	(4,396,859,484)
Other assets	(154,575,726)	(151,923,990)	(35,589,441)	(57,234,252)
Net cash provided by (used in) investing activities	(2,847,756,911)	(2,972,016,172)	10,090,968	(11,284,491,167)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in long-term liabilities	(1,112,593,656)	(1,112,593,656)	1,128,369,128	3,935,703,931

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	Consolidated		Parent Company	
	Years Ended December 31			
	2000	2000	1999	1998
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH CASH EQUIVALENTS	₱329,267,484	₱329,267,484	₱23,029,834	(₱42,844,181)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,154,171,321)	(2,218,245,190)	2,508,338,697	(4,466,408,382)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,628,860,152	4,628,860,152	2,120,521,455	6,586,929,837
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱2,474,688,831	₱2,410,614,962	₱4,628,860,152	₱2,120,521,455
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash paid during the year for:				
Interest - net of amount capitalized	₱1,227,069,479	₱1,227,069,479	₱663,430,624	₱584,001,951
Income taxes	73,095,348	72,487,863	88,134,877	64,866,793
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Additions (reductions) due to foreign exchange differentials:				
Cash and cash equivalents	₱329,267,484	₱329,267,484	₱23,029,834	(₱42,844,181)
Property, plant and equipment	3,108,381,273	3,108,381,273	269,169,869	(63,932,054)
Long-term liabilities	3,437,648,757	3,437,648,757	292,199,703	(106,776,235)

See accompanying Notes to Financial Statements.

DIGITAL TELECOMMUNICATIONS PHILS., INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

1. General

In February 1993, Digital Telecommunications Phils., Inc. (the Company) was awarded a 30-year exclusive contract by the Department of Transportation and Communications (DOTC) to manage, operate, develop and rehabilitate certain telecommunications facilities owned by the DOTC as discussed further in Notes 3 and 4.

In February 1994, the Company was granted a franchise to provide domestic and international telecommunications services nationwide. Pursuant to its national franchise, the Company has filed the corresponding application before the National Telecommunications Commission (NTC) for the issuance of a certificate of public convenience and necessity to install, operate and maintain telecommunications systems.

On September 27, 1994, the Company was granted by the NTC a provisional authority (PA) to operate an international gateway facility (IGF). A PA was also secured from the NTC on January 11, 1995 to install, operate, maintain and develop telecommunications facilities in Regions I to V including the facilities currently leased from the DOTC and provide at least 925,000 additional lines within 10 years. In this regard, the Company initiated in 1995 a 10-year strategic program to expand and upgrade its existing fixed telephone network and entered into agreements with NEC Corporation, Ericsson Business Networks AB, Sumitomo Corporation, American Telephone and Telegraph Company (AT & T), TRT Telephoniques and Telegreenland for the supply and installation of telephone facilities for its fixed telephone network and IGF (see Note 4).

On January 14, 1998, the Company was registered with the Board of Investments (BOI) as an expanding operator of public telecommunications services and International Gateway Facility-2 (IGF-2) on a nonpioneer status with a registered capacity of 786,000 lines covering the areas of Regions I to V and the Cordillera Autonomous Region. Under the terms of its registration, the Company is entitled to income tax holiday for three (3) to six (6) years on income derived from certain areas, additional deduction of labor expenses for five years but not simultaneous with the income tax holiday, employment of foreign nationals for five years and unrestricted use of consigned equipment. However, the Company is subject to certain requirements such as (a) maintaining a base equity of at least 25%, (b) filing of specialized financial reports with the BOI, (c) the need for prior approval for the issuance of stock convertible into voting stock, (d) the repurchase of its own stock, (e) investment in, extension of loans or purchase of bonds in substantial amount from any enterprise other than those bonds issued by the

Philippine Government, (f) expansion of its capacity, with or without incentives and (g) the transfer of ownership or control of the Company.

On August 7, 2000, the Company was granted by the NTC, a Provisional Authority (PA), authorizing it to construct, install, operate and maintain a Nationwide Cellular Telephone System (CMTS) using GSM and/or CDMA technology. In this connection, the Company will build a high powered performance GSM/1800 network with the suite of application and services.

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2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Digitel Information Technology Services (DITSI), Inc.

All significant intercompany balances and transactions have been eliminated in the consolidation.

Revenue Recognition

Operating revenues comprise the value of all services provided and equipment rentals and sales. Such revenues which are accounted for under the accrual basis are stated net of interconnection charges.

Revenues from internet access comprise the value of all services provided and are based on contractual agreements. Sale of prepaid cards is initially deferred and recognized as earned only upon the usage of the cards.

Cash Equivalents

All highly liquid short-term cash investments with original maturities of three months or less from dates of acquisition are considered as cash equivalents.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectibility of its receivables. The level of this allowance is based on management's evaluation based on past collection experience and other factors that may affect collectibility.

Materials and Supplies

Materials and supplies are stated at cost computed using the moving average method.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation.

Cost includes the cost of borrowed funds used during installation of significant property, plant and equipment and foreign currency exchange differentials arising from restatement to prevailing exchange rate of foreign currency denominated liabilities related to the acquisition of property. Depreciation of property and equipment is based on the straight-line method over the estimated service or useful lives of the properties ranging from 5 to 15 years.

The costs of maintenance and repairs are charged to income as incurred; significant renewals and betterments are capitalized. When assets are retired or

otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income for the period.

Investment

Investment in common stock of DITSI, representing 100% ownership, is accounted for using the equity method in the 2000 and 1999 parent company financial statements. Under this method, the cost of investment is increased or decreased by the Company's equity in net earnings or losses of the investee company since date of acquisition. Equity in net earnings is adjusted for the straight-line amortization, over a ten-year period, of the difference between the cost of the investment over the fair value of the net assets acquired at the time of acquisition.

Deferred Charges

Expenditures pertaining to business development, start-up and project costs are initially deferred and amortized over a period of 5 to 10 years when the related activities or projects become operational.

Pension Costs

Pension costs are determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Borrowing Costs

Borrowing costs are generally recognized as expense in the year in which these costs are incurred, except those borrowing costs that are directly attributable to the acquisition, development, improvement and construction of property, plant and equipment which are capitalized as part of the cost of such fixed assets.

The capitalization of borrowing costs as part of the cost of fixed assets: (a) commences when the expenditures and borrowing costs for the fixed assets are being incurred and activities that are necessary to prepare the fixed assets for their intended use are in progress; (b) is suspended during extended periods in which active development, improvement and construction of the fixed assets is interrupted; and (c) ceases when substantially all the activities necessary to prepare fixed assets for their intended use are complete.

Income Taxes

Deferred tax assets and liabilities are recognized for the: (a) future tax consequences attributable to the temporary differences between the financial reporting and tax bases of assets and liabilities; (b) carryforward benefit of the minimum corporate income tax (MCIT); and (c) net operating loss carryover (NOLCO). These differences principally relate to provision for doubtful accounts, unrealized foreign exchange gains or losses and interest capitalized. Deferred tax assets and liabilities are measured using the tax rate expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and the carryforward benefit of MCIT and NOLCO are expected to be applied. A valuation allowance will be provided for the portion of deferred tax assets which are not expected to be realized in the future.

Foreign Currency Transactions

Foreign currency assets and liabilities are stated at exchange rates prevailing at balance sheet date. Foreign exchange gains or losses are credited or charged to current operations, except those pertaining to foreign currency liabilities related to the acquisition of property, plant and equipment which are included in the carrying amount of the assets.

In March 2000, the Accounting Standards Council issued Exposure Draft (ED) No. 37, *The Effects of Changes in Foreign Exchange Rates (revised)*, which will eliminate the deferral of foreign exchange differentials but will allow the capitalization of foreign exchange differentials only under modified conditions effective January 1, 2002. The Company's practice has been to capitalize foreign exchange losses arising directly from the acquisition of property, plant and equipment. Upon adoption of ED 37 in January 1, 2002, the Company will adopt the provisions on capitalization of foreign exchange losses on a prospective basis as allowed.

Earnings Per Share

Earnings per share is computed by dividing earnings applicable to common stock by the weighted average number of shares outstanding, adjusted to give retroactive effect for any stock dividends and stock split in the year of declaration.

3. Facilities Management Agreement

On April 19, 1993, the Company entered into a Facilities Management Agreement (FMA) with the DOTC covering the telecommunications facilities owned by the DOTC. Under the FMA, the Company was granted the exclusive right to manage the operation, and maintain and develop the abovementioned facilities. For the management and operation of the facilities, the Company receives a management fee equivalent to a certain percentage of the annual operating budget, plus the excess of net income generated from the facilities over the annual compensation payment (ACP) to the DOTC. The ACP is calculated based on the formula set forth in the FMA. When the ACP exceeds the net income generated from the managed facilities, said excess shall be remitted by the Company to the DOTC. All expenses related to the managed facilities are borne by the DOTC based on approved budgets. The FMA also provides for its conversion into a lease contract under certain terms and conditions as the parties may agree upon.

In accordance with the provisions of the FMA, the Company and the DOTC agreed to amend and convert the FMA into a Financial Lease Agreement (FLA) pursuant to which 24,945 lines and 4,101 lines were converted effective July 16, 1995 and March 16, 1996, respectively. Under the FLA, the Company was granted the exclusive right to lease, manage, maintain, operate, develop and eventually own the said DOTC facilities. The Company shall pay DOTC an annual lease payment based on the formula set forth in the FLA.

As of December 31, 2000 and 1999, the remaining lines operated under FMA totalled 2,253 lines.

4. Property, Plant and Equipment

This account consists of:

	Consolidated	Parent Company	
	2000	2000	1999
Outside plant facilities	₱10,229,517,927	₱10,229,517,927	₱9,624,402,622
Central office equipment	8,528,971,373	8,528,971,373	7,900,371,581
Buildings and improvements	2,872,522,302	2,871,035,270	2,593,208,416
Vehicle and work equipment	2,511,703,880	2,508,065,153	1,618,436,665
Land and improvements	470,995,786	470,995,786	469,740,739
Station apparatus	182,941,433	182,941,433	119,694,420

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	24,796,652,701	24,791,526,942	22,325,854,443
Less accumulated depreciation	4,280,721,409	4,280,125,383	2,595,128,853
	20,515,931,292	20,511,401,559	19,730,725,590
Telecommunications facilities under capital lease - net	2,917,684,422	2,917,684,422	3,233,188,870
Projects under construction	4,101,883,861	4,101,883,861	1,462,739,697
	P27,535,499,575	P27,530,969,842	P24,426,654,157

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The telecommunications facilities under capital lease account represents the net present value of the future lease payments covering local exchange facilities being leased under the FLAs with the DOTC. The corresponding lease obligation is included in the long-term liabilities account. The present value of the future lease payments for the next five years are as follows: 2001 - ₱203 million; 2002 - ₱191 million; 2003 - ₱181.7 million; 2004 - ₱175.2 million and 2005 - ₱168.2 million. The related financial charges amounting to ₱382.2 million, ₱323.6 million, and ₱260.5 million for 2000, 1999, and 1998, respectively, are included as part of "Interest expense and other financing charges" account.

Interest charges on loans capitalized to property accounts amounted to ₱95.7 million in 2000 and ₱225 million in 1999. Adjustments to property accounts for foreign exchange differentials arising from restatement of foreign currency denominated liabilities to prevailing exchange rates were a net addition of ₱3,108.4 million and ₱269.2 million in 2000 and 1999, respectively.

In line with its 10-year expansion program, the Company has entered into contracts with certain suppliers for the supply and installation of telephone facilities covering 566,048 lines, including expansion of the "backbone" (long distance) transmission network and installation of a transit exchange in Manila and an IGF in Pangasinan. The total cost is about US\$534.0 million. Project financing has been arranged with the suppliers and banking institutions. Availments under these lines amounted to US\$395.5 million and US\$388.8 million as of December 31, 2000 and 1999, respectively.

5. Other Assets

This account consists of:

	Consolidated		<i>Parent Company</i>
	2000	2000	1999
Deferred charges - net	₱232,257,717	₱232,257,717	₱273,658,948
Advances and refundable deposits	118,909,134	118,909,134	14,427,389
Preoperating expenses - net	13,085,298	13,085,298	24,024,365
Others	20,396,950	17,745,214	8,264,134
	₱384,649,099	₱381,997,363	₱320,374,836

On December 17, 2000, the Company entered into an agreement with Asia Global Crossing (AGC) and the Broadband Infrastructure Group (BIG) to form a joint venture known as DIGITEL CROSSING. With these broadband network resource, the Company will be able to cater to a wider spectrum of local and multinational firms operating in top foreign destinations in the US, Europe and Asia. The Company shall own 40% equity interest in the said venture and residual interest shall be shared by AGC and BIG at 40% and 20%, respectively. The

Company is committed to the joint venture in the amount of US\$12 million. As of December 31, 2000, the Company has made initial downpayment of US\$2 million.

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6. Long-term Liabilities

This account consists of:

	2000		1999	
Suppliers' credits and bank financing:				
Payable semi-annually with maturities from 2001 to 2007, at interest rates ranging from 1.5% to 2% over 180-day LIBOR	US\$343,842,156	₱17,187,293,922	US\$363,872,091	₱14,663,317,540
Payable quarterly up to 2002, at interest rate of 1.5% over 90-day LIBOR	3,941,642	197,026,912	4,654,139	187,552,498
Capital lease obligation (see Note 3)	-	2,880,370,426	-	3,088,766,121
		20,264,691,260		17,939,636,159
Less current portion		2,505,674,573		1,376,537,169
		₱17,759,016,687		₱16,563,098,990

The foregoing liabilities, except for the capital lease obligation, are guaranteed up to a certain extent by the Company's majority stockholders and chattel mortgages on certain assets.

Certain loan agreements contain covenants which, among other things, restrict the incurrence of loans or debts not in the ordinary course of business, merger or disposition of any substantial portion of the Company's assets, distribution of capital or profits, redemption of any of its issued shares, reduction in the Company's registered and paid-up capital and maintenance of certain debt to equity ratios.

7. Capital Stock

This account consists of:

Authorized - 9,000,000,000 common shares at ₱1 par value	
Issued - 6,356,976,300 shares	₱6,356,976,300
Additional paid-in capital	2,618,773,450
	₱8,975,749,750

The Company's Board of Directors and stockholders approved on August 10, 1994 and November 7, 1994, respectively, an Executive Stock Option Plan (ESOP) which provides opportunity for all directors, officers and managers of the Company to purchase an ownership interest in the Company's common stock. The ESOP covers the offering of 320 million shares out of the authorized but unissued shares, or issued shares reacquired by the Company to all eligible

participants of the ESOP at an exercise price of ₱1.50 per share. Under the ESOP guidelines, eligible participants will be allocated an aggregate amount of shares determined in accordance with their rank, seniority and performance. The option to purchase shares under the ESOP may be exercised after completion of at least five years of continuous service to the Company by paying the full amount in cash. No options have been awarded under the ESOP pending the Securities and Exchange Commission approval.

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8. Related Party Transactions

The Company, in its ordinary course of business, has transactions with affiliated companies consisting mainly of lease of telecommunications facilities and advances bearing current rates of interest. Total interest charged to affiliated companies amounted to ₱18.6 million in 2000, ₱214.0 million in 1999, and ₱339.0 million in 1998.

9. Income Taxes

Current deferred tax assets consist mainly of the tax effect of allowance for doubtful accounts and MCIT, net of deferred tax liability on unrealized foreign exchange gain. Noncurrent deferred tax liability pertains to the tax effect of capitalized interest charges.

The reconciliation of provision for income tax computed at the statutory rate to actual provision for income tax is as follows:

	Consolidated		Parent Company	
	2000	2000	1999	1998
Statutory income tax	₱9,403,704	₱9,782,682	₱2,003,480	₱294,795,006
Additions (reductions) resulting from:				
Interest income subjected to final tax*	(54,589,729)	(53,640,928)	(5,247,272)	(17,803,397)
Valuation allowance on deferred tax assets	15,650,395	-	-	-
Effect of change in tax rates	-	-	901,547	(13,151,944)
Equity in net losses of a subsidiary	-	16,115,919	609,919	-
Others	54,191,465	53,582,469	3,287,129	-
	₱24,655,835	₱25,840,142	₱1,554,803	₱263,839,665

* Net of nondeductible interest expense.

The current provision for income tax in each of the three years includes final taxes paid on interest income.

Under Republic Act No. 8424, "An Act Amending the National Internal Revenue Code, As Amended and For Other Purposes" (the Act), the corporate income tax rates applicable in 2000, 1999 and 1998 are 32%, 33% and 34%, respectively. Interest expense allowed as a deductible expense is reduced by an amount equivalent to 38% in 2000, 39% in 1999 and 41% in 1998 of interest income subjected to final tax. The Act also imposed the MCIT of 2% of gross income, as defined, and introduced three-year NOLCO.

10. Pension Costs

The Company is in the process of setting-up a formal retirement plan. In the meantime, provision for pension costs (₱3,141,700 for each of the three years), is

being determined using the projected unit credit method. Management believes that the provision is adequate and the difference, if any, against the retirement expense actuarially computed as required under SFAS 24, Retirement Benefit Costs, would not be material.

11. Business Acquisition

On September 1, 1999, the Company purchased all the common stock of DITSI for approximately ₱625,000. DITSI is primarily engaged in developing, operating and maintaining computer-based technology (I.T.) support systems and services and internet access services. The acquisition has been accounted for as a purchase and the equity in net loss for the period September 1, 1999 through December 31, 1999 of DITSI has been included in the accompanying financial statements. The excess of the total acquisition cost over the fair value of the net assets acquired of about ₱2 million is being amortized on a straight-line basis over ten years.

The excess of the accumulated equity in net losses of DITSI over the acquisition cost amounting to ₱51,585,487 in 2000 and ₱1,223,239 in 1999 is included in the "Accounts Payable and accrued expenses" account in the parent company balance sheets.

Under Statement of Financial Accounting Standards No. 21, the preparation of consolidated financial statements is required for the Company and its wholly-owned subsidiary. Consolidated financial statements, however, have not been prepared in 1999 on the basis that the Company's wholly-owned subsidiary is not significant in relation to the Company's financial statements taken as a whole. Total resources would have increased by 0.060% in 1999 had the Company consolidated its wholly-owned subsidiary.

12. Interconnection and Correspondentship Agreements

The Company has entered into interconnection and correspondentship agreements with various international carriers, IGF operators, local exchange carriers, inter-exchange carriers, cellular mobile telephone system operators, paging and trunk radio operators, provincial operators and with the Philippine Government. The agreements provide for sharing of toll revenues based either on traffic minutes at agreed rates or a certain percentage of toll revenues derived as a result of the interconnections.

13. Earnings Per Share

Earnings per share amounts were computed as follows:

	Consolidated		Parent Company	
	2000	2000	1999	1998
a. Net income	₱4,730,740	₱4,730,740	₱4,516,348	₱603,204,470
b. Weighted average number of outstanding common shares	6,356,976,300	6,356,976,300	6,356,976,300	6,356,976,300

c. Earnings per share (a/b)

₱0.0007

₱

₱0.0007

₱0.0949

0.0007

SGV & Co

Report of Independent Public Accountants On Supplementary Schedules

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The Stockholders and the Board of Directors
Digital Telecommunications Phils., Inc. and Subsidiary
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Bagumbayan, Quezon City

We have audited in accordance with auditing standards generally accepted in the Philippines, the financial statements of Digital Telecommunications Phils., Inc and subsidiary included in this Form 17-A and have issued our report thereon dated April 2, 2001. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulations Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

M. F. GONZALES
Partner
CPA Certificate No. 19597
PTR No. 7738131
January 6, 2001
Makati City

April 2, 2001

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