THE PROSPECTUS IS BEING DISPLAYED IN THE WEBSITE TO MAKE THE PROSPECTUS ACCESSIBLE TO MORE INVESTORS. THE PSE ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY OF THE STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THE PROSPECTUS. FURTHERMORE, THE STOCK EXCHANGE MAKES NO REPRESENTATION AS TO THE COMPLETENESS OF THE PROSPECTUS AND DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM OR IN RELIANCE IN WHOLE OR IN PART ON THE CONTENTS OF THE PROSPECTUS.

ERRATUM
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After giving effect to the sale of the Offer Shares and PDRs under the Primary PDR Offer (at an Offer price of ₱8.50 per Offer Share and per PDR) without giving effect to the Company's ESOP, after deducting estimated discounts, commissions, estimated fees and expenses of the Combined Offer, the net tangible book value per Share will be ₱1.31 per Offer Share.

GMA Network, Inc.
GMA Holdings, Inc.

Primary Share Offer on behalf of the Company of
91,346,000 Common Shares
at a Share Offer Price of ₱8.50 per share

PDR Offer on behalf of the Company of
91,346,000 PDRs relating to 91,346,000 Common Shares and
PDR Offer on behalf of the Selling Shareholders of
730,769,000 PDRs relating to 730,769,000 Common Shares
at a PDR Offer Price of ₱8.50 per PDR

to be listed and traded on the First Board of
The Philippine Stock Exchange, Inc.

Sole Global Coordinator, Bookrunner and Lead Manager

Deutsche Bank

Joint Lead Manager, Domestic Lead Underwriter and Issue Manager

ATR KimEng
CAPITAL PARTNERS, INC.

Participating Underwriters

BDO Capital & Investment Corporation

First Metro Investment Corporation

Unicapital Incorporated

Abacus Capital & Investment Corporation

Pentacapital Investment Corporation

Asian Alliance Investment Corporation

RCBC Capital Corporation

UnionBank of the Philippines

Domestic Selling Agents
The Trading Participants of
the Philippine Stock Exchange, Inc.

THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION.

The date of this prospectus is July 14, 2007

GMA NETWORK, INC.
GMA NETWORK CENTER,
EDSA COR. TIMOG AVE.
DILIMAN, QUEZON CITY, PHILIPPINES
TELEPHONE NUMBERS: (632) 982-7777

GMA HOLDINGS, INC.
UNIT 5D, TOWER ONE, ONE MCKINLEY PLACE
BONIFACIO GLOBAL CITY
TAGUIG CITY, PHILIPPINES
TELEPHONE NUMBER: (632) 982-7777

This Prospectus relates to the offer and sale of 91,346,000 common shares, par value ₱1.00 per share (the "Common Shares"), of GMA Network, Inc., a corporation organized under Philippine law (the "Company") and 822,115,000 Philippine Deposit Receipts ("PDRs") relating to 822,115,000 Common Shares, to be issued by GMA Holdings, Inc. ("GHI"), a corporation organized under Philippine law (the "PDR Issuer").

91,346,000 new Common Shares, at an offer price of ₱8.50 per share (the "Share Offer Price"), are being issued by the Company from its authorized and unissued capital stock by way of a primary offer (the "Domestic Share Offer"). The Common Shares being sold in the Domestic Share Offer are referred to herein as the "Offer Shares". All of the Offer Shares shall be offered for sale in the Philippines.

In addition, 822,115,000 PDRs, at an issue price of ₱8.50 per PDR (the "PDR Offer Price") are to be issued by GHI. Subject to the nationality restrictions relating to the ownership of Common Shares (described below), each PDR grants the holder thereof the right, upon exercise, to delivery or sale of one existing Common Share (the "Underlying Shares") or adjustment to the terms of the PDRs upon the occurrence of certain events in respect of stock dividends or other distribution of Common Shares, rights issues, capital reorganizations, offers and analogous events relating to Common Shares and to cash distributions (net of applicable taxes and operating expenses) in respect of cash dividends on the Common Shares. Of the PDRs being offered, 91,346,000 PDRs are being offered on behalf of the Company (the "Primary PDR Offer") and 730,769,000 PDRs are being offered on behalf of certain existing shareholders of the Company, namely Group Management and Development, Inc., FLG Management and Development Corporation, M.A. Jimenez Enterprises, Inc., Television International Corporation, Gozon Development Corporation and Gozon Foundation, Inc. (collectively, the "Selling Shareholders") (the "Secondary PDR Offer"). Of the 730,769,000 PDRs relating to Common Shares to be offered on behalf of the Selling Shareholders, 256,229,534 shall be from Group Management and Development, Inc., 212,829,164 shall be from FLG Management and Development Corporation, 147,249,954 from M.A. Jimenez Enterprises, Inc., 108,475,350 from Television International Corporation, 4,516,152 from Gozon Development Corporation and 1,468,846 from Gozon Foundation, Inc. The Underlying Shares are (and pending exercise will be) registered in the name of, and owned by, the PDR Issuer. Although holders of PDRs will enjoy economic rights upon occurrence of certain events in respect of the Underlying Shares, they will not have any voting rights in respect of the Underlying Shares. Such voting rights will, until exercise of the PDR, be retained and exercised by GHI. In addition, holders of PDRs cannot bring derivative actions against the Company as holders of PDRs.

Under the Philippine Constitution, the Common Shares can only be owned by Philippine citizens and by corporations or associations wholly-owned and managed by

Philippine citizens. The PDRs may be owned by any person regardless of citizenship or nationality. However, the exercise of a PDR is subject to the foregoing nationality restriction. See "Terms and Conditions of the Offer" and "Philippine Foreign Investment, Foreign Ownership and Exchange Controls".

Of the PDRs being offered, 182,692,000 PDRs are being offered in the Philippines (the "Domestic PDR Offer", together with the Domestic Share Offer, the "Domestic Offer") by the Domestic Underwriters and 639,423,000 PDRs are being offered for subscription outside the Philippines (the "International Offer") by Deutsche Bank AG, Hong Kong Branch (the "International Lead Manager"). The underwriting and selling fees to be derived by International Lead Manager and the Domestic Lead Underwriter from the Combined Offer shall be based on a fee of up to 2.5% of the gross proceeds of the Combined Offer, inclusive of amounts to be paid to other Participating Underwriters and Selling Agents, where applicable. The Domestic Share Offer, the Domestic PDR Offer and the International Offer are collectively referred to herein as the "Combined Offer".

After the Combined Offer, the total number of issued and outstanding Common Shares outstanding will be 3,307,692,000, assuming that the Over-allotment Option, as defined below, is not exercised.

Each of GHI and the Selling Shareholders has granted the Stabilizing Agent named herein an option, exercisable for 30 days from the date of listing and when trading of the Common Shares and PDRs on the Philippine Stock Exchange ("PSE") begins (the "Listing Date"), to purchase or place up to 123,317,000 PDRs at the PDR Offer Price, and up to 13,701,000 Common Shares at the Share Offer Price, representing up to 15% of the Combined Offer, on the same terms and conditions as the PDRs and Offer Shares as set forth in this Prospectus, solely to cover over-allotments (the "Over-allotment Option"). See "Plan of Distribution".

In connection with the Combined Offer, the Stabilizing Agent may effect price stabilization transactions for a period which shall not exceed 30 days from the Listing Date. The Stabilizing Agent may purchase PDRs or Common Shares on behalf of the Selling Shareholders in the open market only if the market price of the PDRs or Common Shares is below the PDR Offer Price or Share Offer Price, respectively. This may have the effect of preventing or retarding a decline in the market price of the PDRs or Common Shares and may also cause the price of the PDRs or Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions, it may discontinue them, as it may determine in its reasonable discretion, at any time. The Stabilizing Agent is required to disclose to the Philippine SEC and to the PSE any of the foregoing price stabilization transactions.

All of the Common Shares, including the Offer Shares and the Underlying Shares, issued and to be issued pursuant to the Domestic Offer have, or will have, identical rights and privileges. The Underlying Shares are and, pending exercise, will be registered in the name of, and owned by, the PDR Issuer. The PDR Issuer will pledge the Underlying Shares to secure its obligation to deliver the Underlying Shares upon exercise of the PDRs. For a more detailed description, see "Description of the Shares" and "Terms and Conditions of the PDRs".

Through the Domestic Share Offer and the Primary PDR Offer and based on the Share Offer Price and PDR Offer Price set forth above, the Company expects to raise gross proceeds of ₱1,552,882,000. The net proceeds from the Domestic Share Offer and Primary PDR Offer, determined by deducting from the gross proceeds the total issue management, underwriting and selling fees, listing fees, taxes and other related fees and expenses, which are estimated not to exceed 8.3% of proceeds of the Domestic Share

Offer and Primary PDR Offer, will be used primarily for improvements to existing facilities and investments in capacity expansion. A portion of the net proceeds will also be used by the Company for general corporate purposes. The Company will not receive any proceeds from the Secondary PDR Offer. See "Use of Proceeds".

Subject to the existence of unrestricted retained earnings, each holder of a Common Share will be entitled to such dividends as may be declared in accordance with the Company's dividend policy. Upon listing of the Company's shares on the PSE pursuant to the Combined Offer, it is currently envisaged by the Company's Board of Directors that such cash dividend policy will entitle holders of the Common Shares to receive annual cash dividends equivalent to a minimum of 50% of the prior year's net income based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as the implementation of business plans, operating expenses, budgets, funding for new investments, appropriate reserves and working capital, among others. The cash dividend policy may be changed by the Company's Board of Directors at any time. See the section entitled "Dividend Policy" on page 48 of this Prospectus.

No dealer, salesman, or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company, GHI or any of the Underwriters. The distribution of this Prospectus and the offer and sale of the Offer Shares or the PDRs may, in certain jurisdictions, be restricted by law. The Company and the Underwriters require persons into whose possession this Prospectus comes, to inform themselves of and observe all such restrictions. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company or GHI in any jurisdiction, to or from any person to whom it is unlawful to make such offer in such jurisdiction.

Prior to the Combined Offer, there has been no public market for the Common Shares or the PDRs. Accordingly, there has been no market price for the Common Shares or the PDRs derived from day-to-day trading.

Unless the context indicates otherwise, any reference to the "Company" refers to GMA Network, Inc. on a consolidated basis. Unless otherwise indicated, references to the Company's television network and television broadcasting operations refer to operations for broadcasts on Channel 7 and rebroadcasts of Channel 7 content through 45 other television stations nationwide. The information contained in this Prospectus relating to the Company, its operations and those of its subsidiaries and affiliates has been supplied by the Company, unless otherwise stated herein. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus relating to the Company, its operations and those of its subsidiaries and affiliates is correct, and that there is no material statement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Company hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. The Underwriters confirm that they have exercised the required due diligence in verifying that all material information in this Prospectus is true. The Underwriters assume no liability for any information supplied by the Company in relation to this Prospectus. Unless otherwise indicated, all information in this Prospectus is correct as at the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as at any date subsequent to the date hereof or that there has been no change in the affairs of the Company since such date.

In making an investment decision, investors must rely on their own examination of the Company and the terms of the Combined Offer, including the material risks involved. The Combined Offer is being made on the basis of this Prospectus only.

Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Company nor the Underwriters make any representation as to the accuracy of such information.

In this Prospectus, references to "U.S. Dollars", "US$" or "$" are to the currency of the United States of America. The Company maintains its accounts in Philippine Pesos, the currency of the Republic of the Philippines, which are referred to as "Pesos" or "₱". This Prospectus contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, the Philippine Dealing System month-end clearing rate as at December 29, 2006, which was ₱49.03 to US$1.00, was used in these translations. In addition, unless otherwise indicated, Philippine Peso/U.S. Dollar exchange rates referred to in this Prospectus are Philippine Dealing System weighted average rates for the indicated period or on the applicable date, as relevant. No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate or at any particular rate. Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures which are totals may not be an arithmetic aggregate of their components.

This Prospectus includes forward-looking statements. The Company has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. Words including, but not limited to, "believes", "may", "will", "estimates", "continues", "anticipates", "intends", "expects" and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. The Company's actual results could differ substantially from those anticipated in the Company's forward-looking statements.

An application for listing of the Common Shares (including the Offer Shares, the Underlying Shares and all outstanding Common Shares not part of the Combined Offer) and an application for listing of the PDRs were approved on June 27, 2007 by the board of directors of the PSE, subject to the fulfilment of certain listing conditions. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. Such approval for listing does not constitute a recommendation or endorsement of the Common Shares or the PDRs by the PSE.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.

GMA NETWORK, INC.

By:

[Original signed]
Felipe L. Gozon
Chairman and Chief Executive Officer

GMA HOLDINGS, INC.

By:

[Original signed]
Gilberto R. Duavit, Jr.
President

GLOSSARY OF TERMS

ABS-CBN	ABS-CBN Broadcasting Corporation.
Affiliate	Any company which, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, the Company. For purposes of this definition, "control" shall mean the power to direct or cause the direction of the management policies of this company by contract, agency or otherwise.
AGBNMR Phils..	AGB Nielsen Media Research (Philippines), the ratings company resulting from the merger of AGB Phils. and Nielsen Media Research.
Application	An application to subscribe for Offer Shares and PDRs pursuant to the Domestic Offer.
ATRKE Capital.	ATR KimEng Capital Partners, Inc.
Audience Share	The percentage of households actually watching a network's programming out of all households actually watching television during the relevant time period.
Average Cost Efficiency	The average cost of advertising spots in relation to the Company's television ratings.
BAS	Broadcast Automation System.
BIR	Bureau of Internal Revenue.
BOI	Board of Investments.
BSP.	Bangko Sentral ng Pilipinas, the central bank of the Philippines.
Business Day	A day in which the Philippine Stock Exchange and banks are open in Metro Manila.
CAGR	Compound Annual Growth Rate.
Combined Offer	The Domestic Offer and the International Offer, collectively.
Common Shares.	The Company's common shares of stock, par value ₱1.00 per share.
Company or GMA	GMA Network, Inc.
Corporation Code.	Batas Pambansa Blg. 68, otherwise known as "The Corporation Code of the Philippines".
CPC.	Certificate of Public Convenience.
CTA	The Philippine Court of Tax Appeals.

Deposit	Where PDRs are issued for cash or where PDRs are issued upon delivery of Shares, the amount received by the PDR Issuer or the price at which the Shares are crossed, less ₱0.05.
Domestic Lead Underwriter, Joint Lead Manager and Issue Manager.	ATRKE Capital.
Domestic Offer	The Domestic PDR Offer and the Domestic Share Offer, collectively.
Domestic Offer Period.	July 17, 2007 to July 24, 2007 or such other period as may be agreed upon between the Company and the Underwriters.
Domestic PDR Offer.	182,692,000 PDRs offered for sale in the Philippines.
Domestic Share Offer	91,346,000 new Common Shares, issued by the Company from its authorized and unissued capital stock by way of a primary offer.
Domestic Selling Agents.	Trading Participants of the PSE.
Domestic Underwriters	The Domestic Lead Underwriter and the Participating Underwriters.
Domestic Underwriting Agreement	Agreement to be dated on or about July 14, 2007 among the Company, the Selling Shareholders, the PDR Issuer and the Domestic Lead Underwriter.
DOTC	Department of Transportation and Communications.
DTH	Direct-to-Home.
Duavit Family	Gilberto M. Duavit and certain members of his family within the second degree of consanguinity or affinity who are the principal stockholders of Group Management and Development, Inc.
Eligible Broker	A securities broker that (a) has an office in the Philippines; (b) is licensed as a securities broker by the Securities and Exchange Commission and (c) is an active Trading Participant in good standing of the Philippine Stock Exchange.
ESOP	Employee Stock Ownership Plan.
Exercise Notice.	Written instructions by or on behalf of the Holder to the PDR Agent in the form printed on the back of each PDR Certificate or in the form from time to time available from the PDR Agent (or as may otherwise be agreed between the PDR Issuer, the Company and the PDR Agent).
GHI	GMA Holdings, Inc.
GMA Films	GMA Network Films, Inc.
GMA Marketing	GMA Marketing & Productions, Inc.

GMA New Media	GMA New Media, Inc.
GMA Records	RGMA Marketing and Productions, Inc.
GMAAC	GMA Artists Center.
Government	The Government of the Republic of the Philippines.
Gozon Family	Felipe L. Gozon and certain members of his family within the second degree of consanguinity or affinity who are the principal stockholders of FLG Management and Development Corporation and Gozon Development Corporation and those who are members of Gozon Foundation, Inc.
GWI	GMA Worldwide (Philippines), Inc.
Holder	A holder of PDRs as defined in Condition 1(c) of the Terms and Conditions of the PDRs.
Household Rating.	The percentage of households viewing a network's programming out of the total households in the area measured.
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards.
International Lead Manager . .	Deutsche Bank AG, Hong Kong Branch.
International Offer	639,423,000 PDRs offered for subscription outside of the Philippines.
International Underwriting Agreement	The Underwriting Agreement to be dated on or about July 14, 2007 between the Company, the PDR Issuer, the Selling Shareholders and the International Lead Manager.
IPO	Initial Public Offering.
Jimenez Family	Menardo R. Jimenez as well as certain members of his family within the second degree of consanguinity or affinity who are the principal stockholders of M.A. Jimenez Enterprises, Inc., Majent Management and Development Corporation and Television International Corporation.
KBP.	Kapisanan ng mga Brodkaster sa Pilipinas, the self-regulatory body for the broadcast media in the Philippines.
Listing Date.	The date when listing and trading of the Common Shares and PDRs on the PSE begins.
Loading	The amount of advertising minutes aired during the breaks in a television or radio program.
Local Small Investors	A subscriber under the Domestic Offer who is willing to subscribe to 1,000 PDRs or 1,000 Offer Shares under the Local Small Investors program.

Manual.	The Company's Manual on Corporate Governance adopted by the Company's Board of Directors on April 10, 2006 which will be filed with the SEC after the Listing Date.
MCR	Master Control Room.
Mega Manila.	The city of Metro Manila plus the urban parts of the provinces of Bulacan, Cavite, Laguna, Rizal and Pampanga.
Moody's.	Moody's Investors Service.
MTRCB.	Movie and Television Review and Classification Board.
Nielsen Media Research.	Ratings company that acted independently until merging with the AGB Phils. to form AGBNMR Phils.
NLRC	National Labor Relations Commission.
NTC	National Telecommunications Commission.
Offer Shares	The Common Shares to be offered pursuant to the Domestic Share Offer.
OMB	Optical Media Board.
Over-allotment Option.	An option granted by each of GHI and the Selling Shareholders to the Stabilizing Agent, exercisable within 30 days from the Listing Date, to purchase or place up to an additional 123,317,000 PDRs and up to 13,701,000 Common Shares, representing up to 15% of the Combined Offer, to cover over-allotments, if any.
Participating Underwriters . . .	BDO Capital & Investment Corporation, First Metro Investment Corporation, Unicapital Incorporated, Abacus Capital & Investment Corporation, Pentacapital Investment Corporation, Asian Alliance Investment Corporation, RCBC Capital Corporation and UnionBank of the Philippines.
PAS.	Philippine Accounting Standards.
PDR or PDRs	Philippine Deposit Receipt(s).
PDR Agent.	Stock Transfer Service, Inc.
PDR Exercise Right	Delivery or sale of a Common Share as set out in Condition 4 of the Terms and Conditions of the PDRs.
PDR Instrument	A PDR instrument to be dated on July 16, 2007, entered into by the PDR Issuer in favor of Holders.
PDR Issuer.	GMA Holdings, Inc.
PDR Offer Price	An issue price of ₱8.50 per PDR.

PDTC	Philippine Depository and Trust Corp.
PDTC Nominee	A corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all securities lodged into the PDTC.
Pesos, ₱.	The lawful currency of the Republic of the Philippines.
PFRS.	Philippine Financial Reporting Standards.
Philippine GAAP.	Accounting principles generally accepted in Philippines.
Philippine Person	Any person who is a citizen of the Philippines or a corporation, cooperative or association wholly-owned and managed by citizens of the Philippines.
Pledge Agreement	The pledge agreement to be dated on July 16, 2007 between the PDR Issuer and the Pledge Trustee, on behalf of the Holders, securing the obligations of the PDR Issuer to deliver the Underlying Shares under the PDR Instrument.
Pledge Trustee	Banco de Oro — EPCI, Inc.
Preferred Shares	The Company's preferred shares of stock, par value ₱0.20 per share.
Primary PDR Offer	91,346,000 PDRs offered on behalf of the Company.
Prime Time	The block of programming on television, generally between 6:00 p.m. and 10:30 p.m., depending on the market.
PSE.	The Philippine Stock Exchange, Inc.
PSRC — RI.	The Philippine Survey Research Company - Research International, a company which conducts ratings surveys for radio broadcasting in key provincial cities.
QIBs	Qualified Institutional Buyer within the meaning of Rule 144A under the Securities Act.
RBS	Republic Broadcasting System.
Receiving Bank.	UnionBank of the Philippines.
Register	The PDR registry book.
Registrar	Registrar in relation to the PDRs.
Rehabilitation Rules.	The Interim Rules of Procedure on Corporate Rehabilitation.
Retirement Plan	Plan of the Company for the grant of benefits to eligible employees in the event of retirement, voluntary separation/resignation, death or disability or involuntary separation.

RGMA.	RGMA Network, Inc.
Rule 144A	Rule 144A under the Securities Act.
SCCP	Securities Clearing Corporation of the Philippines.
SEC.	The Securities and Exchange Commission of the Philippines.
Secondary PDR Offer.	730,769,000 PDRs offered on behalf of the Selling Shareholders.
Securities Act	The U.S. Securities Act of 1933, as amended.
Securities Regulation Code, SRC.	Republic Act No. 8799, otherwise known as "The Securities Regulation Code of the Philippines", as amended from time to time, and including the rules and regulations issued thereunder.
Selling Shareholders	Group Management and Development, Inc., FLG Management and Development Corporation, M.A. Jimenez Enterprises, Inc., Television International Corporation, Gozon Development Corporation and Gozon Foundation, Inc.
SFAS	Statements of Financial Accounting Standards.
Share Offer Price	An offer price of ₱8.50 per Offer Share.
Shareholder	A holder of Common Shares and/or Preferred Shares.
Stabilizing Agent	Deutsche Bank AG, Hong Kong Branch.
S&P	Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc.
Subsequent Exchange	An exchange where a shareholder may, at his option and from time to time, deliver Common Shares to the PDR Issuer to be exchanged for an equal number of PDRs, subject to the registration and listing of the new PDRs created for such purpose.
Subsidiary	A company in which the Company owns, directly or indirectly, at least a majority of the outstanding capital stock.
Suspension Period	Period occurring from the date the PDR Agent determines (in its absolute discretion) that as a result of the suspension of trading in the Common Shares or a general suspension of trading on Philippine Stock Exchange, the PDR Issuer is unable to procure the delivery or sale of Common Shares pursuant to the exercise of PDRs and shall continue until such delivery or sale may be effected.
TAPE.	Television and Production Exponents, Inc.

Total Day	The block of programming on television between 6:00 a.m. and 12:00 midnight.
Trading Participants	Duly licensed securities brokers who are trading participants of the PSE.
Treaty	The Philippines-United States Tax Treaty.
Underlying Shares	Existing Common Shares, the right to delivery or sale of which is granted to the holder of each PDR.
Underwriters	The Domestic Underwriters and the International Lead Manager.
U.S. Dollars, US$, $	The lawful currency of the United States of America.
VAT	Value-added tax.
ZBNI	Zoe Broadcasting Network, Inc.
ZenithOptimedia	A global media research company and subsidiary of the Publicis Group.

PROSPECTUS SUMMARY

This summary highlights selected information contained in greater detail elsewhere in this Prospectus. This summary may not contain all of the information that you should consider before investing in the Offer Shares and the PDRs. You should carefully read the entire Prospectus, including "Risk Factors" and the financial statements, before making an investment decision.

Overview of the Company

GMA Network, Inc. is the leading free-to-air media broadcasting company in the Philippines in terms of ratings and net income. Headquartered in Quezon City, the Company provides a variety of programs to an estimated television audience of approximately 8.1 million television-owning households in the Philippines, based on 2000 data from the National Statistics Office. The Company also broadcasts to paying subscribers in the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa. The Company's television programming includes fantasy programs, dramas, soap operas (*telenovelas*), dubbed foreign serials, entertainment news, talk shows, reality programs, news and public affairs shows, documentaries, game shows, variety shows, musicals, sitcoms and children's shows. The Company broadcasts extensively throughout the Philippines, programming between 21 and 22 hours a day on Channel 7 in Mega Manila and through 45 other television stations nationwide. The Company believes that its broadcasts currently reach more than 90% of Philippine television-owning households, ranking the Company among the leading television station operators in terms of broadcast coverage. The Company also produces and broadcasts radio programs in 16 cities and one municipality across the Philippines on its wholly-owned operating network of 24 radio stations and one minority-owned radio station.

As at March 31, 2007, the Company's television network was the highest rated television network in Mega Manila, which is the largest television market in the Philippines. According to AGB Nielsen Media Research Philippines ("AGBNMR Phils."), for the three months ended March 31, 2007, the Company's Total Day household ratings and audience share in Mega Manila were 17.3% and 42.1%, respectively, which were higher than its nearest competitor, ABS-CBN, whose Total Day household ratings and audience share were 14.7% and 35.7%, respectively, in the same time period. As a result of the increase in advertising spending on the Company's network, the Company's financial results have improved significantly in the past three years. For the year ended December 31, 2006, the Company recorded net revenues of ₱9,187.9 million, net income of ₱1,962.5 million and EBITDA of ₱4,043.3 million representing CAGRs of 19%, 14% and 17%, respectively, since December 31, 2004. For the three months ended March 31, 2007, the Company recorded net revenues of ₱2,152.2 million, net income of ₱440.7 million and EBITDA of ₱936.0 million, compared to net revenues of ₱1,952.8 million, net income of ₱350.8 million and EBITDA of ₱781.6 million for the same period in 2006.

The Company believes its high household ratings and audience shares are due to the consistently superior quality, relevance and originality of its productions, its highly rated and credible news and public affairs programs, its highly creative talent pool and its close connection with its audience. Based on data from AGBNMR Phils., for the year ended December 31, 2006, the Company aired all of the top 10 regular television programs and 19 out of the top 30 regular television programs and for the three months ended March 31, 2007, the Company aired 17 out of the top 30 regular television programs in Mega Manila in terms of household ratings, compared to only 16 out of the top 30 in 2004. These household ratings reflect overall or Total Day ratings, and are for regular programs only and exclude television specials. Of these 19 programs aired in the year ended December 31, 2006, 14 were the Company's original productions featuring its on-camera talents. The Company's original productions include several highly-rated broadcast series, such as *Asian Treasures*, *Super Twins* and *Magpakailanman*, and news and public affairs programs such as *24 Oras* and *Imbestigador*. The broadcasting industry has consistently recognized the Company's programming and talent pool through awards received at events in the Philippines and internationally. The Company's corporate mantra, "Kapuso", meaning "One in heart with the Filipino people", guides its programming choices and allows viewers to feel closely connected to the network.

An important objective of the Company's business strategy has been to broaden its revenue base. Since 2005, the Company has identified additional revenue streams by broadcasting programming on an additional channel, Quality TV ("*Qtv*") and through the Company's subscription-based international channel, *GMA Pinoy TV*. *Qtv* was developed in partnership with Zoe Broadcasting Network, Inc., and is the first television station in the Philippines specifically tailored primarily to middle- to upper-class female viewers, a consumer group particularly attractive to advertisers and who, the Company believes, constitute the majority of television viewers. As at March 31, 2007, *Qtv* was the third-highest rated station in Mega Manila, according AGBNMR Phils. The Company's television programs are also broadcast outside the Philippines on its subscription-based international channel, *GMA Pinoy TV*, as well as distributed outside the Philippines through GMA Worldwide (Philippines), Inc. ("GWI"), a wholly-owned subsidiary of the Company. *GMA Pinoy TV* was first aired in April 2005 and is currently shown in the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa. As at March 31, 2007, *GMA Pinoy TV* had approximately 136,000 subscribers. A variety of the Company's original productions are also distributed through syndication sales to foreign television stations in Canada, Malaysia, Cambodia, Indonesia and the United States.

The Company's provincial radio stations are managed by RGMA Network, Inc. ("RGMA"), an affiliate of the Company, which provides programming and administrative services for the Company's radio stations.

The Company's principal shareholders are the Duavit, Gozon and Jimenez Families. Following the Combined Offer, the Duavit Family, the Gozon Family and the Jimenez Family will hold 28.35%, 24.21% and 28.29%, respectively, of the Company's enlarged share capital, including preferred shares (the "Preferred Shares"), assuming that the Over-allotment Option is not exercised and without giving effect to the ESOP.

The Company's head office is located at the GMA Network Center, EDSA corner Timog Avenue, Diliman, Quezon City, Metro Manila. Its corporate website is www.igma.tv. The information on the website is not incorporated by reference into this Prospectus.

Competitive Strengths

The Company believes that it is uniquely positioned to provide innovative programming and benefit from higher ratings, audience and advertising shares due to the following competitive advantages:

Superior Programming

The Company believes its focus on superior programming and original program ideas has resulted in the Company achieving higher household ratings and audience shares than any other broadcasting company in the Philippines. The Company believes its superior programming is based on the following:

- *Highly-rated and Credible News Coverage.* The Company's news programs provide well-balanced, in-depth and groundbreaking news coverage of all major news events in the Philippines. The Company's news and public affairs programs have won a number of awards, including the prestigious George Foster Peabody Award for excellence in broadcast journalism. The Company's news presenters, including Mike Enriquez, Mel Tiangco and Jessica Soho, are well-known and well-respected public figures in the Philippines.

- *Innovative Programming*. The Company believes that its programming is innovative, well-researched and in tune with the interests of its primary audience. The Company pioneered the production and programming of the fantasy and reality genres on Philippine television, resulting in fantasy programs such as *Asian Treasures* and *Super Twins*, and reality programs such as *Pinoy Pop Superstar* and *Starstruck*. These programs have earned high ratings in their respective genres. Through a dedicated research team, the Company leverages tools such as ratings, focus groups and interest groups to identify and review current viewership trends and preferences. A dedicated programming committee assesses feedback and recommends the launch, continuation or termination of programs. This enables the Company to assess programming strategically so that relevant programs are aired at the most appropriate time to target the strongest viewership. For example, in recognition of viewers' appreciation of Asian dramas, the Company airs Taiwanese and Korean dramas that are top-rated shows in their home countries. The Company constantly seeks to introduce innovative programming formats to increase viewership.

- *Interactive Shows*. The Company has developed interactive shows which allow the viewing audience to participate in the program. One of the Company's first and most successful interactive shows is *Starstruck*, the Philippines' first reality-based talent search program which allowed viewers to select the surviving aspirants. Another program, *Emergency*, allows viewers to present their concerns and requests to the show through SMS texting. In addition, through a majority of the Company's shows, including *Asian Treasures* and *Jumong*, viewers can participate in polls and win prizes through SMS texting. Through the S-Files hotline, viewers can receive the latest updates on their favorite celebrities on the show and can call in during the show to ask questions of celebrities as they are being interviewed.

Leading Television Broadcaster in Mega Manila

The leadership of the Company's network in the Mega Manila television market in terms of household ratings makes it the leading broadcasting company in the Philippines. Mega Manila is the largest television market in the Philippines, with an estimated viewing audience of 3.5 million television-owning households, according to ABGNMR Phils. As at December 31, 2003, the Company surpassed its closest competitor, ABS-CBN, in household ratings and audience share in the Mega Manila market, and as at March 31, 2007, led ABS-CBN in these categories by 2.6% and 6.4%, respectively, according to AGBNMR Phils. Due to its ratings leadership in Mega Manila, the Company has been able to raise its advertising rates and increase its minute loading.

Strong Relationships with Advertisers and Advertising Agencies

GMA Marketing & Productions, Inc. ("GMA Marketing"), one of the Company's subsidiaries, maintains relationships with and delivers services to advertisers and advertising agencies, providing traditional commercial spots and non-traditional media packages, promotional programs and materials and creative products. For example, GMA Marketing assists advertisers in producing commercial campaigns. Through dedicated sales forces specializing in entertainment programs, news and public affairs programs, radio and *Qtv*, GMA Marketing is in constant communication with advertisers to maintain and develop relationships. Sales executives have received numerous awards from reputable organizations recognizing their achievements as the industry's top sales executives. As a result of its strong relationships with advertisers and advertising agencies, the Company is able to better address the needs of advertisers, manage advertising schedules and ensure repeat placements.

Extensive Reach and Market Share

The Company believes that its broadcasts currently reach more than 90% of Philippine television-owning households, ranking the Company among the leading television station operators in terms of broadcast coverage. The Company currently broadcasts programming between 21 and 22 hours a day on Channel 7 in Mega Manila and through 45 other television stations throughout the Philippines. While having a strong market share in Mega Manila is important to the Company, advertisers generally prefer to reach audiences in all areas of the Philippines as they can save costs and reach all areas of the nation by placing advertisements on one network. The Company's leadership in Mega Manila and nationwide broadcasting capability appeals to these advertisers.

Deep Talent Pool

The Company believes it has developed a deep talent pool by working to discover and develop its on- and off-air talents. As at March 31, 2007, the Company had approximately 2,621 talents under contract, consisting of on-air performers and presenters, and behind-the-scenes writers, directors and producers. The Company has successfully developed a number of its on-air talents into stars by showcasing them in popular television programs. The Company's GMA Artists Center ("GMAAC") plays a strong role in recruiting, identifying and retaining emerging talents and developing and promoting existing talents, in particular, on-air talents including performers and presenters. Building on the Company's strong program concepts, GMAAC focuses on the optimal casting of its talents, ensuring proper exposure, training, career guidance and opportunities in programming, in the fields of television, movies and music recording. The Company's internal development of talents helps to keep talent costs low.

For more information, see the section entitled "Business — Competitive Strengths" on page 89 of this Prospectus.

Business Strategies

The Company aspires to strengthen its position as the leading broadcaster in the Philippines through revenue and audience growth and the continued implementation of effective cost controls. The principal components of this strategy are:

Maintain Top Rating

The Company intends to maintain its top-ranking in Total Day television ratings in Mega Manila, which it first achieved in December 2003. Beginning in September 2004, the Company took the lead in ratings across all time blocks, including in the Prime Time block consisting of programming generally aired between 6:00 p.m. and 10:30 p.m. The Company acquired its top-ranked position through continuous improvement of its programs and the introduction of innovative shows that appeal to a broad range of viewers. Successful programming of broadcast television requires constant refinement to match available programming and the changing tastes of the viewing audience. The Company intends to continuously produce credible news, public affairs and quality entertainment programs and refine its programming mix to attract and retain the audiences desired by advertisers and to increase profitability.

Achieve Wider Audience Reach through Reprogramming and Development of Qtv

The Company intends to reach out to a wider range of viewers through the reprogramming and development of *Qtv*, the first Philippine channel programmed primarily for middle- to upper-class women, a consumer group particularly attractive to advertisers. The Company believes that female viewers constitute the majority of television viewers. Specifically, the Company intends to reprogram *Qtv* to target viewers who are not current or regular viewers of Channel 7 programming. As at March 31, 2007, *Qtv* was the third ranked broadcasting channel in the Mega Manila, in terms of Total Day household ratings. The Company plans to retain *Qtv*'s current audience and attract new viewers by leveraging the Company's existing expertise in entertainment, news and public affairs programming and the star appeal of the Company's current stable of talents. By targeting a viewer demographic that is attractive to advertisers, and by achieving strong ratings, the Company hopes to increase its revenues by increasing the available airtime it can sell to advertisers.

Improve and Expand Regional Coverage

The Company plans to increase its appeal to advertisers by improving the clarity of its signal and the reach of its stations in cities outside of Mega Manila through the implementation of its Regional Expansion Project, as described herein. The Company believes regional expansion will prepare the Company to meet the demands of advertisers who are increasing their presence in those regions outside of Mega Manila with large numbers of television-owning households. The Company plans to increase its regional coverage and target audiences by dialect spoken, rather than by geographical location. This strategy allows the Company to capture untapped audiences, increase ratings and consequently increase local advertiser interest. The Company has allocated ₱195 million to the Regional Expansion Project in 2007. As part of the Project, the Company intends to upgrade and enhance studio facilities in Cebu, Davao and Iloilo, including constructing new studios in Dagupan and Naga. In early 2007, the Company completed the upgrade of a transmitter installation in Mt. Sto. Tomas, Benguet. In addition, the Company plans to upgrade and strengthen major transmitter installations such as those in Batangas, Naga, Mt. Kitanglad and General Santos in order to further extend the Company's broadcast coverage. Further, the Company plans to construct two new relay stations, one in Mt. Amuyao, Mountain Province, and the other in Cagayan de Oro City.

Expand International Audience

Recognizing the increasing size of the overseas Filipino market, the Company intends to expand its international audience by entering into arrangements with foreign carriers and networks to broadcast its programs internationally. The Company plans to establish global exposure and capitalize on the large population of overseas Filipinos through *GMA Pinoy TV*, the Company's first international channel, and through a second international channel to be launched in 2007. The Company has entered into carriage agreements in the United States with Comcast, the largest U.S. pay television operator and DirecTV, the largest U.S. Direct-to-Home ("DTH") operator. *GMA Pinoy TV* is also carried in the United States by Time Warner Cable, Cox Communications, Wave Broadband and San Bruno Cable. The Company also has agreements for the distribution of *GMA Pinoy TV* in Japan, Guam, Saipan and Papua New Guinea, as well as 16 countries in the Middle East and 11 countries in North Africa. In preparation for the Company's international broadcasting, the Company invested in a new Broadcast Automation System ("BAS") to produce programming for its international channels and tailor-made programs. Among the programs produced specifically for its international broadcasts, are *Review Philippines*, a weekly news recap/public affairs program anchored by Mike Enriquez, one of the Philippines' most credible news presenters and *Hot Seat*, a talk show dedicated to discussing current affairs in the Philippines, hosted by Jessica Soho, an award-winning broadcast journalist.

Control Costs to Increase Profitability

The Company believes that controlling costs is an important strategy for increasing its profitability. To minimize the cost of renting vehicles and equipment for its production of programs, the Company purchased broadcast vans, an audio van, lighting grip trucks, news gathering vans and other production equipment. The Company will also manage increases in talent fees through greater reliance on internally-managed talents. The Company is currently constructing the GMA Network Center Annex, and believes that, when operational, the facilities in its new GMA Network Center Annex will allow it to control costs further by centralizing all aspects of production in one building and eliminating leasing expenses for additional studio space, in addition to improving production values for the Company's programs.

Diversification into Media-Related Businesses

The Company intends to diversify its revenue streams, support its existing core operations and provide support to its talents by diversifying into media-related businesses. The Company has diversified and invested in allied and related business such as:

- *GMA New Media.* The Company is venturing beyond television by providing value-added services and applications for mobile phones, the Internet and digital television, including downloads of ringtones, television content, and information services relating to GMA artists. GMA New Media, in collaboration with the Company's broadcasting initiatives, also provides television audiences with interactive viewership. For example, for selected programs, television audiences are able to take part in contests or live polls concurrently broadcasted by sending their responses via SMS. Through a joint-venture with Summit Media, a major magazine publisher in the Philippines, GMA New Media launched Pep.ph, the Philippines Entertainment Portal, the first and only web portal in the Philippines dedicated to entertainment news. In early 2007, GMA New Media also launched the GMANews.tv website, the official website for GMA News and Public Affairs.

- *GMA Records.* In 2004, the Company re-opened its music recording label, GMA Records, which operates through its wholly-owned subsidiary, RGMA Marketing and Productions, Inc. Since re-opening its operations, GMA Records has released 28 audio albums by 16 contract artists with eight new albums scheduled for release in 2007. The Company intends to produce a majority of its future albums using artists within the pool of musical talent available in the GMA network.

- *GMA Films.* The Company resumed its movie production in late 2004. In 2005, GMA Films produced *Let the Love Begin* and *Lovestruck*, starring the Company's young and popular talents, which grossed approximately ₱110 million and ₱42 million, respectively, at the box office. GMA Films also co-produced *Mulawin (the Movie)*, the only Rated A movie, the highest category rating for quality in films by the Film Development Council of the Philippines, during the 2005 Metro Manila Film Festival. In 2006, GMA Films released three movies, including *Moments of Love*, I *Will Always Love You* and *Till I Met You*. GMA Films was the sole producer of *Moments of Love*, which was a finalist at the 2007 New York Festivals International Film and Video Awards.

In early 2007, GMA Films released *The Promise*, and plans to release two more films later in the year. GMA Records and GMA Films afford the Company's talents opportunities to supplement their income and gain more exposure while remaining a part the Company's business. Providing these opportunities to the talents also engenders their greater loyalty to the Company.

For more information, see the section entitled "Business — Business Strategies" on page 91 of this Prospectus.

Risks of Investing

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Common Shares. These risks include:

- risks relating to the Company, its subsidiaries and their businesses;
- risks relating to the Philippines; and,
- risks relating to the Common Shares and the PDRs.

Please refer to the section entitled "Risk Factors" beginning on page 32 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares and the PDRs.

THE OFFER

The Domestic Offer

Domestic Share Offer

The Company, through the Domestic Lead Underwriter, is offering 91,346,000 Offer Shares in the Philippines. The Domestic Share Offer comprises 91,346,000 new Common Shares at a Share Offer Price of ₱8.50 per Offer Share to be issued from the Company's authorized and unissued capital stock.

Domestic PDR Offer

The PDR Issuer, through the Domestic Lead Underwriter, is offering for sale 182,692,000 PDRs relating to 182,692,000 Common Shares in the Philippines at a PDR Offer Price of ₱8.50 per PDR.

The International Offer

The International Lead Manager, on behalf of the PDR Issuer, is offering 639,423,000 PDRs relating to 639,423,000 Common Shares at a PDR Offer Price of ₱8.50, without giving effect to the Over-allotment Option, in the United States only to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and in various jurisdictions outside of the United States and the Philippines pursuant to Regulation S under the Securities Act.

After the Combined Offer, and without giving effect to the Company's Employee Stock Ownership Plan ("ESOP") or the Over-allotment Option, the Company will have 3,307,692,000 Common Shares issued and outstanding.

On the Listing Date, the Company will issue an aggregate of 91,346,000 new Common Shares from its unissued capital stock to the PDR Issuer and the Selling Shareholders will transfer, by means of a special block sale on the PSE, an aggregate of 730,769,000 Common Shares from their existing shareholdings to the PDR Issuer, and the PDR Issuer will issue an aggregate of 822,115,000 PDRs relating to such Common Shares. The Shares issued or transferred to the PDR Issuer will constitute the Underlying Shares of the PDRs.

Underlying Shares (whether certificated or lodged with the PDTC) shall be pledged in favor of Banco de Oro—EPCI, Inc. acting as Pledge Trustee on behalf of the PDR Holders on the Listing Date.

Over-allotment Option

Each of GHI and the Selling Shareholders has granted the Stabilizing Agent an option, exercisable for 30 days from the date of listing of the Common Shares and the PDRs on the PSE, to purchase or place up to 123,317,000 PDRs and up to 13,701,000 Common Shares at the PDR Offer Price and the Share Offer Price, respectively, representing up to 15% of the Combined Offer, on the same terms and conditions as the PDRs and Common Shares, as set forth in this Prospectus, solely to cover over-allotments, if any.

Use of Proceeds

Proceeds from the sale by the Company of Offer Shares in the Primary Share Offer and the PDRs in the Primary PDR Offer shall be used for improvements to existing facilities, investments in capacity expansion and general working capital requirements. A portion of the net proceeds will also be used by the Company for general corporate purposes. See the section entitled "Use of Proceeds" on page 45 of this Prospectus. The Company will not receive any proceeds from the sale of the PDRs in the Secondary PDR Offer.

Statistics Relating to the Capital Stock

Authorized Capital Stock	
Common Shares (par value ₱1.00)	5,000,000,000
Preferred Shares (par value ₱0.20)	7,500,000,000
Common Shares outstanding before the Combined Offer	3,125,000,000
Common Shares outstanding after the Combined Offer(1)	3,307,692,000
Number of Preferred Shares Outstanding	7,500,000,000
Number of voting shares outstanding after the Combined Offer	10,807,692,000
Market Capitalization at the Share Offer Price of ₱8.50 Per Offer Share (including conversion of Preferred Shares)(2)	₱41,349,882,000

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(1) Computed to include the Underlying Shares to be issued by the Company to the PDR Issuer, but without giving effect to the Common Shares offered pursuant to the Company's ESOP and the full conversion of the Preferred Shares of the Company.

(2) Computed at the Share Offer Price multiplied by the number of participating Common Shares outstanding after the Combined Offer, including the Underlying Shares, conversion of all of the Preferred Shares to Common Shares and the Common Shares offered pursuant to the ESOP.

Lock-Up

In addition to lock-up obligations required by the PSE, the Company, the PDR Issuer, Group Management and Development, Inc., FLG Management and Development Corporation, M.A. Jimenez Enterprises, Inc., Television International Corporation, Gozon Development Corporation and Gozon Foundation, Inc. have each agreed with the International Lead Manager and the Domestic Lead Underwriter that, other than for the purpose of converting Preferred Shares owned by any of the Selling Shareholders into Common Shares, in connection with the Over-allotment Option, the issuance of ESOP Shares, or so that the Company may transfer Common Shares to the PDR Issuer to effect exchanges by investors of Common Shares for PDRs and the PDR Issuer may issue additional PDRs representing such Underlying Shares or so that the PDR Issuer may transfer Common Shares to the Company to effect exchanges by investors of PDRs for Common Shares, or so that the Company may issue and distribute Common Shares by issue of stock dividends, and the PDR Issuer may issue additional PDRs relating to such stock dividends, for a period of 180 days following the Listing Date, they will not, without the written consent of the International Lead Manager and the Domestic Lead Underwriter issue, offer, sell or otherwise dispose of any PDRs, Common Shares or any securities substantially similar to or of the same class as the Common Shares, PDRs or any securities convertible or exchangeable for any securities of the same class as the Common Shares. For more information, see "Terms and Conditions of the Offer".

TERMS AND CONDITIONS OF THE OFFER

The Domestic Offer:

Offer Shares and PDRs	The Company and the PDR Issuer, through the Domestic Underwriters, are offering in the Philippines a total of 91,346,000 Offer Shares and 182,692,000 PDRs. The Offer Shares and the PDRs will be allocated to Trading Participants and Domestic Underwriters in bundled units of one Offer Share for every two PDRs.
Share Offer Price	The Offer Shares are being offered for an Offer Price of ₱8.50 per Offer Share.
PDR Offer Price	The PDRs are being offered for an Offer Price of ₱8.50 per PDR.
Minimum Subscription	1,000 Common Shares or 1,000 PDRs.
Domestic Offer Period	The Domestic Offer Period shall commence on July 17, 2007 and end on July 24, 2007. The Company and the Domestic Lead Underwriter reserve the right to extend or terminate the Domestic Offer Period with the approval of the SEC and the PSE. Applications must be received by the Receiving Bank not later than 11:00 a.m., Manila Time on July 23, 2007, if filed through a Domestic Selling Agent, or not later than 11:00 a.m., Manila Time on July 24, 2007, if filed directly with a Domestic Underwriter. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to the Domestic Selling Agent or Domestic Underwriter, and shall be subject to the terms and conditions of the offer as stated in this Prospectus and in the Application. The actual subscription and/or purchase of the Offer Shares and PDRs shall become effective only upon the actual listing of the Offer Shares and the PDRs on the PSE.
Procedure for Application. . . .	Application forms to subscribe for Offer Shares and PDRs in the Domestic Offer may be obtained from the Domestic Underwriters or the Domestic Selling Agents. All Applications shall be evidenced by the application to subscribe and purchase form, duly executed in each case by an authorized signatory of the applicant and accompanied by one completed signature card which, for corporate and institutional applicants, should be authenticated by the corporate secretary, and the corresponding payment for the Offer Shares and PDRs covered by the Application and all other required documents. The duly executed Application and required documents should be submitted during the Domestic Offer Period to the same office where it was obtained.

If the applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents:

- A certified true copy of the applicant's latest articles of incorporation and by-laws and other constitutive documents (each as amended to date) duly certified by its corporate secretary;
- A certified true copy of the applicant's SEC certificate of registration duly certified by its corporate secretary; and
- A duly notarized corporate secretary's certificate setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Offer Shares and PDRs indicated in the application, identifying the designated signatories authorized for the purpose, including his or her specimen signature, and certifying that the applicant is wholly-owned and managed by Philippine citizens.

Payment Terms. . . . . The Offer Shares and PDRs in the Domestic Offer must be paid for in full upon submission of the Application. Payment must be made by a check drawn against a bank in Metro Manila to the order of "GMA Public Offer". The check must be dated as at the date of submission of the Application and crossed for deposit.

Acceptance/Rejection of Applications. . . . . The actual number of Offer Shares or PDRs that an applicant will be allowed to subscribe for in the Domestic Offer is subject to the confirmation of the Domestic Underwriters. Applications shall be subject to the final approval of the Company. The Company, through the Domestic Lead Underwriter, reserves the right to accept or reject, in whole or in part, any Application. Applications where checks are dishonored upon first presentation and Applications which do not comply with the terms of the Domestic Offer shall be rejected. Moreover, receipt of any payment pursuant to the Application does not mean approval or acceptance by the Company of the Application.

An Application, when accepted, shall constitute an agreement between the applicant and the Company, the Selling Shareholders and/or the PDR Issuer for the subscription to the Offer Shares and PDRs at the time, in the manner and subject to terms and conditions set forth in the Application and those described in this Prospectus. Notwithstanding the acceptance of any Application by the Domestic Underwriters or their duly authorized representatives, acting for or on behalf of the Company, the actual subscription and purchase

	by the applicant of the Offer Shares and PDRs will become effective only upon listing of the Offer Shares and PDRs on the PSE and upon the obligations of the Domestic Underwriters and the Domestic Selling Agent under the Domestic Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled, on or before the Listing Date, in accordance with the provisions of such agreements. If such conditions have not been fulfilled on or before the periods provided above, all application payments will be returned to the applicants without interest and, in the meantime, the said application payments will be held in a separate bank account with the Receiving Bank.
Refunds	In the event that the number of Offer Shares or PDRs to be received by an applicant, as confirmed by the Domestic Underwriters, is less than the number covered by its Application, or if an Application is rejected, then the Company shall refund, without interest, within five Banking Days from the end of the Domestic Offer Period, all, or a portion of the payment corresponding to the number of Offer Shares or PDRs wholly or partially rejected. All refunds shall be made through the Domestic Underwriter or Domestic Selling Agent with whom the applicant has filed the Application.
Over-allotment Option.	Each of GHI and the Selling Shareholders have granted the Stabilizing Agent an Over-allotment Option, exercisable for 30 days from the date of listing of the Common Shares and PDRs on the PSE, to purchase or place up to 123,317,000 PDRs and up to 13,701,000 Common Shares at the PDR Offer Price and the Share Offer Price, respectively, representing up to 15% of the Combined Offer, on the same terms and conditions as the PDRs and Common Shares as set forth herein, solely to cover over-allotments, if any.
Clawback	The Domestic Lead Underwriter, on receiving a written consent from the International Lead Manager, on or before July 23, 2007, may reallocate up to 80,085,000 PDRs from the International Offer to the Domestic Offer for the purpose of satisfying domestic demand.
Eligible Investors	The Common Shares of the Company may be held only by Philippine citizens or corporations, cooperatives or associations wholly-owned and managed by Philippine citizens. The Company may reject an Application if the same shall cause the Company to be in breach of the Philippine ownership requirement under the Philippine Constitution. The PDRs may be held by any person regardless of nationality.

Restrictions on Ownership . . .	The Philippine Constitution prohibits foreign ownership in mass media companies such as the Company. Any Shareholder of the Company will be subject to Philippine ownership restrictions on shares of corporations engaged in mass media, particularly broadcasting. As a result, Underlying Shares resulting from an exercise of the PDRs may only be issued to Philippine citizens or corporations, cooperatives or associations wholly owned and managed by Philippine citizens. The Company has the right to reject the transfer of Underlying Shares to persons other than Philippine citizens or corporations or associations wholly owned and managed by Philippine citizens and has the right not to record such transfers in the books of the Company. In addition the Philippine SEC and the Department of Justice of the Philippines may also impose sanctions on companies whose foreign ownership violates such ownership restrictions imposed by law. For more information relating to Restrictions on Ownership of the Company's shares, see the sections entitled "Description of the Shares", "Risk Factors", "General Corporate Information" and "Philippine Foreign Investment and Exchange Controls and Foreign Ownership" elsewhere in this Prospectus.
Issuance and Stock Transfer Taxes	All documentary stamp taxes applicable to the original issuance of the Offer Shares and the PDRs and Underlying Shares with respect to the Primary PDR Offer, shall be for the sole account of the Company. The standard stock transfer taxes applicable to the sale of PDRs, including the Underlying Shares with respect to the Secondary PDR Offer, by the Selling Shareholders pursuant to the Secondary Offer shall be for the sole account of the Selling Shareholders.
Registration and Lodgment of Shares with the PDTC . . .	All Offer Shares and PDRs will be issued in scripless form and lodged with the PDTC. The Applicant must indicate the lodgment information in the Application.
Restriction on Issuance and Disposal of Common Shares and PDRs and Lock-up.	Existing shareholders who own an equivalent of at least 10.0% of the issued and outstanding Common Shares of the Company before the Combined Offer are required under the revised listing rules of the PSE applicable to companies applying for listing on the PSE First Board, not to sell, assign or otherwise dispose of their Common Shares and PDRs for a minimum period of 180 days after the Listing Date. Group Management and Development, Inc., FLG

	Management and Development Corporation, M.A. Jimenez Enterprises, Inc., Television International Corporation, Gozon Development Corporation and Gozon Foundation, Inc. are covered by this lock-up requirement. In addition to lock-up obligations required by the PSE, the Company, the PDR Issuer, Group Management and Development, Inc., FLG Management and Development Corporation, M.A. Jimenez Enterprises, Inc., Television International Corporation, Gozon Development Corporation and Gozon Foundation, Inc. have each agreed with the International Lead Manager and the Domestic Lead Underwriter that, other than for the purpose of converting Preferred Shares owned by any of the Selling Shareholders into Common Shares, in connection with the Over-allotment Option, the issuance of ESOP Shares, or so that the Company may transfer Common Shares to the PDR Issuer to effect exchanges by investors of Common Shares for PDRs and the PDR Issuer may issue additional PDRs representing such Underlying Shares or so that the PDR Issuer may transfer Common Shares to the Company to effect exchanges by investors of PDRs for Common Shares, or so that the Company may issue and distribute Common Shares by issue of stock dividends, and the PDR Issuer may issue additional PDRs relating to such stock dividends, for a period of 180 days following the Listing Date, they will not, without the written consent of the International Lead Manager and the Domestic Lead Underwriter issue, offer, sell or otherwise dispose of any PDRs, Common Shares or any securities substantially similar to or of the same class as the Common Shares, PDRs or any securities convertible or exchangeable for any securities of the same class as the Common Shares. For more information, see "Terms and Conditions of the Offer".
Listing and Trading	The Company's application for the listing of the Common Shares and the PDRs was approved by the PSE on June 27, 2007. All of the Common Shares in issue or to be issued, including the Offer Shares and the Underlying Shares, and the PDRs, are expected to be listed on the PSE on July 30, 2007. Trading is expected to commence on the same date.
The International Offer:	
PDRs......................	The PDR Issuer, through the International Lead Manager, is offering outside of the Philippines a total of 639,423,000 PDRs.
PDR Offer Price	The PDRs are being offered for an Offer Price of ₱8.50 per PDR.

Over-allotment Option	Refer to "— The Domestic Offer — Over-allotment Option" above.
Eligible Investors	The PDRs may be held by any person regardless of nationality.
Restrictions on Ownership . . .	Refer to "— The Domestic Offer — Restrictions on Ownership" above.
Issuance and Stock Transfer Taxes	Refer to "— The Domestic Offer — Issuance and Stock Transfer Taxes" above.
Registration and Lodgment of Shares with the PDTC . . .	Refer to "— The Domestic Offer — Registration and Lodgment of Shares with the PDTC" above.
Restriction on Issuance and Disposal of PDRs	Refer to "— The Domestic Offer — Restriction on Issuance and Disposal of Common Shares and PDRs" above.

The PDRs:

The following is a summary of the terms of the PDRs and is qualified in its entirety by reference to the "Terms and Conditions of the PDRs."

PDR Offer Price (Option Price plus Deposit)	Each PDR shall be offered at a PDR Offer Price of ₱8.50 of which ₱8.45 is the Deposit and ₱0.05 is the Option Price retained by the PDR Issuer in consideration for the rights granted under the PDRs.
PDR Rights	Each PDR grants the right to (i) the delivery or sale of one Common Share; (ii) additional PDRs or adjustment to the terms of the PDRs upon the occurrence of certain events in respect of distributions of Underlying Shares, rights issues, capital reorganizations, offers and analogous events relating to Common Shares; and (iii) distributions of cash in respect of cash dividends relating to the Underlying Shares (less applicable taxes and certain operating expenses).
Exercise Price	₱0.05
PDR Exercise Right	Each PDR is exercisable upon payment of the Exercise Price and will entitle the Holder, as permitted by Philippine law, to either the delivery of, or sale of and payment of proceeds from the sale of, one Underlying Share. The portion of the PDR Offer Price consisting of the Deposit shall be applied by the PDR Issuer towards payment for the relevant Underlying Share upon exercise of a PDR.

	Delivery of Underlying Shares to non-Philippine Persons is not permitted; therefore, on exercise of a PDR, the Underlying Shares will only be delivered through an Eligible Broker to Philippine Persons designated by the Holder or otherwise sold on its behalf by an Eligible Broker in the open market on the PSE and the proceeds of such sale will be paid to the order of the relevant Holder. A PDR Holder that wishes to realize its investment in such PDR will be able to do so either by exercising its rights under the PDR or by trading such PDR on the PSE. The PDR Issuer shall pay for the stock transaction tax, the selling broker's fees and commissions and any transfer or similar fees (including the PDTC *ad valorem rate*) due from the seller on the sale of the shares ("Expenses"), upon the exercise by a Holder of a PDR Exercise Right, but not to exceed the prevailing Exercise Price in respect of the PDRs being exercised. Any other taxes, fees or charges in excess of the amount payable by the PDR Issuer on the exercise of a PDR shall be deducted from the net proceeds or shall otherwise be payable by or on behalf of the Holder. For so long as the Underlying Share are considered to be "restricted securities" under the Securities Act, each exercising Holder requesting delivery of Underlying Shares will be required to certify in the Exercise Notice that (a) neither the person exercising the PDRs nor any person on whose behalf the PDRs are being exercised is a person within the United States or a U.S. Person or (b) the person exercising the PDRs and any person on whose behalf the PDRs are being exercised is a QIB. The PDR Issuer's obligations in respect of the PDR Exercise Right are discharged, in the case of an exercise of the PDR, upon delivery of the Underlying Shares to the Holder and, in the case of an exercise by sale of Underlying Shares and payment of proceeds, upon the sale of the Underlying Shares through such Eligible Broker, in each case in accordance with the Holder's irrevocable instructions for sale or delivery. An exercising Holder may nominate an Eligible Broker through which Underlying Shares will be delivered or sold.
Voting Rights	PDRs' voting rights in respect of the Underlying Shares will, until exercise of the PDR, be retained and exercised by GHI.

Form and Denomination	The PDRs shall be issued in registered and/or scripless form. Unless a Holder requests that its PDRs be issued in certificated form, the PDRs will be issued in scripless form. The PDRs are eligible for trading under the scripless book-entry system of the PDTC.
Exercise Period.	PDRs may be exercised at any time from (and including) the Listing Date until the Expiry Date (as defined below).
Exercise Procedure	PDRs may be exercised only by the delivery of the appropriate certificate(s) to the PDR Agent (if in certificated form) or through an Eligible Broker (if scripless) together with a duly completed Exercise Notice in the form printed on the back of each certificate or otherwise obtainable from the Registrar and payment of the Exercise Price, subject to adjustment for certain dilutive events. On the exercise of a PDR, the exercising Holder shall, in the case of a sale of Underlying Shares pursuant to that exercise, designate an Eligible Broker to pay the Exercise Price on his or her behalf and to deduct that amount from the sale proceeds. In the case of a delivery of Underlying Shares pursuant to the exercise of any PDR, the exercising Holder shall pay the Exercise Price to the PDR Agent (or as otherwise directed by the PDR Agent) for payment to the PDR Issuer.
Expiry Date	Such date in respect of which the PDR Issuer has given at least 45 days prior notice, upon the occurrence of any of the following events: (a) if under Philippine law, all the Shares held by the Issuer could be owned by non-Philippine Persons, or (b) if only 47,956,700 PDRs, as such number may be adjusted to reflect the change in the number of PDRs outstanding, are outstanding.
Subsequent Exchanges	At any time after the Combined Offer, a shareholder may, at his option and from time to time, deliver Common Shares to the PDR Issuer to be exchanged for an equal number of PDRs, subject to the registration (or exemption, as the case may be) and listing of the new PDRs created for such purpose (a "Subsequent Exchange"). Any stock transaction tax, documentary stamp tax, fees and expenses relating to the transfer of the Common Shares to the PDR Issuer and the applicable registration fees and listing fees pertaining to such additional PDRs, pursuant to the Subsequent Exchanges shall be for the account of the shareholder. The PDR Issuer undertakes to file a registration statement or seek an exemption from registration, as may be applicable, with the SEC and a listing application with the PSE for new PDRs within 15 days from receipt of notices from shareholders to exchange at least 3 million Common Shares to PDRs.

Share Ownership	For as long as the PDRs are not exercised, the Underlying Shares are and will continue to be registered in the name of and owned by the PDR Issuer and all rights pertaining to the Underlying Shares, including voting rights, shall be exercised by the PDR Issuer.
Additional PDRs and Adjustments to the Terms of the PDRs	Additional PDRs will be issued or adjustments to the terms of the PDRs shall be made in respect of distributions of Underlying Shares, rights issues, capital reorganizations and other analogous events relating to the Underlying Shares.
Cash Dividends and Other Cash Distributions on Shares	Any cash dividends distributed in respect of Underlying Shares received by the PDR Issuer shall be applied towards the operating expenses then due of the PDR Issuer for the preceding and current year. A further amount equal to the operating expenses in the preceding year shall be set aside to meet operating or other expenses for the succeeding year. Amounts remaining in excess of such requirements shall be distributed pro rata amongst the outstanding PDRs.
Rights Issues	On a rights issue to shareholders of the Company, Holders may fund the subscription of additional Common Shares by the PDR Issuer. Additional PDRs will be granted by the PDR Issuer to the relevant Holders in respect of such additional Common Shares.
Pledge Agreement	The obligations of the PDR Issuer to deliver the Underlying Shares on exercise of the right contained in the PDRs are secured by the Pledge Agreement of the Underlying Shares in favor of the Pledge Trustee acting on behalf of each holder of a PDR over the Underlying Shares. The Pledge Agreement is enforceable individually by each Holder against the PDR Issuer.
Governing Law	The PDRs and the Pledge Agreement are governed by Philippine law, including the rules and regulations of the SEC.
PDR Agent and Registrar	Stock Transfer Service, Inc.
Pledge Trustee	Banco de Oro—EPCI, Inc.

Expected Timetable:

The expected timetable of the Combined Offer is tentatively scheduled as follows:

Start of International Offer Period	July 3, 2007
End of International Offer Period	July 13, 2007
Pricing and allocation of the Offer Shares and PDRs	July 13, 2007
Start of Domestic Offer Period:	July 17, 2007
Deadline for Submission of Application to the Receiving Bank:	
for Local Small Investors:	11:00 a.m. on July 23, 2007
for Domestic Selling Agents:	11:00 a.m. on July 23, 2007
for the Domestic Underwriters:	11:00 a.m. on July 24, 2007
End of Domestic Offer Period:	July 24, 2007
Settlement Date	July 30, 2007
Listing Date and Commencement of Trading of the Common Shares and PDRs on the PSE:	July 30, 2007

SUMMARY FINANCIAL INFORMATION

The following tables present consolidated summary financial information for the Company and should be read in conjunction with the Auditors' Reports and the Financial Statements and notes thereto contained in this Prospectus and the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" in this Prospectus. The summary financial information in Philippine pesos presented below for the years ended December 31, 2004, 2005 and 2006 were derived from the audited consolidated financial statements of the Company, as audited by SyCip Gorres Velayo & Co., a member practice of Ernst & Young Global, in accordance with PFRS effective as at January 1, 2005. The summary financial information in Philippine pesos presented below for the three-month periods ended March 31, 2006 and 2007 were derived from the unaudited financial statements prepared by the Company in accordance with PFRS effective as at January 1, 2005, as reviewed by SyCip Gorres Velayo & Co. The information below is not necessarily indicative of the results of future operations.

	For the year ended December 31,				For the three months ended March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱ (unaudited)	US$
	(in millions, except per share data)						
Statement of Income Data:							
Revenue							
Television and radio airtime	7,801.0	9,606.7	10,495.6	214.1	2,229.4	2,395.6	48.9
Production and others	195.6	220.3	531.5	10.8	123.8	159.0	3.2
	7,996.6	9,826.9	11,027.1	224.9	2,353.2	2,554.6	52.1
Less Revenue Deductions							
Agency and marketing commissions	1,330.7	1,581.9	1,685.7	34.4	367.0	376.9	7.7
Co-producer's share	177.2	156.4	153.5	3.1	33.4	25.4	0.5
Net Revenue	6,488.8	8,088.6	9,187.9	187.4	1,952.8	2,152.2	43.9
Production Costs	2,333.8	2,873.7	3,702.8	75.5	860.3	886.0	18.1
Gross Profit	4,154.9	5,214.9	5,485.0	111.9	1,092.4	1,266.2	25.8
General and Administrative Expenses	(1,856.5)	(2,308.9)	(2,613.0)	(53.3)	(575.4)	(595.6)	(12.1)
Interest and Financing Charges on Short-term and Long-term Loans	(122.4)	(43.6)	(38.0)	(0.8)	(3.9)	(6.2)	(0.1)
Interest Income from Short-term Investments	17.6	22.3	12.7	0.2	3.4	12.8	0.3
Equity in Net Losses of Associates and Joint Ventures	(8.8)	(7.9)	(10.4)	(0.2)	0.6	(1.1)	(0.0)
Other Income	23.9	68.9	178.0	3.6	26.2	1.2	0.0
Income Before Income Tax	2,208.6	2,945.7	3,014.3	61.5	543.4	677.3	13.8
Provision For (Benefit From) Income Tax	708.0	940.5	1,051.8	21.4	192.6	236.6	4.8
Net Income	1,500.6	2,005.2	1,962.5	40.0	350.8	440.7	9.0
Earnings Per Share							
Basic	0.546	0.729	0.491	0.010	0.11	0.10	0.002
Diluted	—	—	0.491	0.010	0.11	0.10	0.002

	As at December 31,				As at March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱ (unaudited)	US$
				(in millions)			
Balance Sheet Data:							
Cash and cash equivalents	433.6	490.6	306.6	6.2	497.1	1,043.6	21.3
Short-term investments	7.1	—	226.4	4.6	4.3	220.7	4.5
Trade and other receivables — net	3,248.4	3,105.7	3,830.7	78.1	3,111.1	3,086.8	63.0
Program rights	564.8	1,001.1	1,031.0	21.0	1,059.2	979.3	20.0
Prepaid expenses and other current assets	144.2	241.6	250.9	5.1	252.9	299.4	6.1
Total Current Assets	4,398.1	4,839.0	5,645.6	115.1	4,924.6	5,629.8	114.8
Available-for-sale financial assets	—	110.4	97.3	2.0	120.2	100.4	2.0
Investments and advances	537.4	414.7	364.0	7.4	371.3	365.0	7.4
Property and equipment at cost — net	1,983.1	2,436.5	2,522.2	51.4	2,441.9	2,528.6	51.6
Land at revalued amounts	1,352.0	1,364.8	1,371.9	28.0	1,364.8	1,371.9	28.0
Investment properties	55.0	68.2	43.4	0.9	67.4	43.0	0.9
Deferred tax assets — net	13.7	18.5	21.9	0.4	18.9	22.3	0.4
Other non current assets	178.7	136.7	167.7	3.4	127.3	167.1	3.4
Total Noncurrent Assets	4,119.9	4,549.8	4,588.4	93.6	4,511.8	4,598.2	93.8
Notes payable	387.0	276.6	577.1	11.8	227.1	310.7	6.3
Trade payables and other current liabilities	1,366.9	1,641.6	1,506.4	30.7	1,299.8	2,670.8	54.5
Income tax payable	417.8	509.3	569.2	11.6	667.9	761.6	15.5
Current portion of obligations for program rights	152.6	319.1	172.8	3.5	306.7	131.1	2.7
Current portion of long-term debt	524.6	—	—	—	—	—	—
Total Current Liabilities	2,848.8	2,746.6	2,825.4	57.6	2,501.5	3,874.1	79.0
Obligations for program rights — net of current portion	22.2	18.0	—	—	—	—	—
Pension liability	209.9	239.0	286.5	5.8	253.1	307.9	6.3
Deferred tax liabilities — net	298.0	230.0	198.9	4.0	221.9	180.9	3.7
Total Noncurrent Liabilities	530.2	486.9	485.4	9.9	475.0	488.7	10.0
Total Stockholders' Equity	5,139.0	6,155.3	6,923.2	141.2	6,459.9	5,865.1	119.6
Total liabilities and stockholders' Equity	8,517.9	9,388.8	10,234.0	208.7	9,436.3	10,228.0	208.6

	For the year ended December 31,				For the three months ended March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱ (unaudited)	US$
				(in millions)			
Cash Flow Data:							
Net cash generated from operating activities	1,490.3	2,719.2	1,422.8	29.0	178.2	1,217.1	24.8
Net cash used in investing activities	440.5	829.0	780.2	15.9	115.1	105.2	2.1
Net cash used in financing activities	764.9	1,833.6	831.3	17.0	55.9	373.3	7.6
Effect of exchange rate changes on cash and cash equivalents.	0.3	0.4	4.7	0.1	(0.8)	(1.6)	(0.0)
Net increase (decrease) in cash and cash equivalents	285.1	57.0	(184.0)	(3.8)	6.4	737.0	15.0
Cash and cash equivalents, beginning of period	148.4	433.6	490.6	10.0	490.6	306.6	6.2
Cash and cash equivalents, end of period	433.6	490.6	306.6	6.2	497.0	1,043.6	21.3
Capital Expenditures	477.9	869.9	521.8	10.6	109.4	114.8	2.3
EBITDA[(1)].	2,958.0	3,677.9	4,043.3	82.5	781.6	936.0	19.1

(1) EBITDA represents net income after adding provisions for income tax, interest and other financing charges, depreciation and amortization, program rights usage and amortization of software costs. EBITDA is not a measure of performance under PFRS and investors should not consider EBITDA in isolation or as an alternative to operating income or net income as an indicator of the Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. Because there are various EBITDA calculation methods, the Company's presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

SUMMARY OPERATIONAL INFORMATION

Channel 7

Period	Total day household ratings		Total day audience share	
	%	**Rank**	**%**	**Rank**
2004				
Q1	16.5	1	40.6	1
Q2	15.9	2	38.6	2
Q3	17.0	1	40.9	1
Q4	18.7	1	45.5	1
Annual	17.0	1	41.4	1
2005				
Q1	18.9	1	46.0	1
Q2	18.6	1	45.8	1
Q3	19.0	1	46.6	1
Q4	17.8	1	43.9	1
Annual	18.6	1	45.6	1
2006				
Q1	18.3	1	42.9	1
Q2	17.7	1	43.1	1
Q3	17.6	1	41.7	1
Q4	16.7	1	40.8	1
Annual	17.6	1	42.1	1
2007				
Q1	17.3	1	42.1	1

Source: Nielsen Media Research and AGBNMR Phils.

Qtv

Period	Total day household ratings		Total day audience share	
	%	**Rank**	**%**	**Rank**
2005				
Q4(1)	1.5	3	3.4	3
2006				
Q1	1.9	3	4.2	3
Q2	2.3	3	5.2	3
Q3(2)	2.4	3	5.3	3
Q4	2.4	3	5.3	3
2007				
Q1	1.6	3	3.8	3

Source: AGBNMR Phils.

(1) *Qtv* was launched on November 11, 2005

(2) September 28, 2006 data was not collected due to the effects of Typhoon Milenyo.

	Channel 7		Qtv	
	Average Television Advertising Rates[1]	Television Loading Minutes[2]	Average Television Advertising Rates	Television Loading Minutes
	(peso/minute)		(peso/minute)	
2004	114,707	67,193	N/A	N/A
2005[3]	128,646	73,086	26,255	1,180
2006	137,669	72,085	20,441	10,851

(1) Average television advertising rates are calculated by dividing the Company's television revenues by its loading minutes.

(2) Loading minutes presented here are exclusive of advertising minutes loaded during blocktime programs.

(3) *Qtv* 2005 numbers are from November 11, 2005 to December 31, 2005 only.

Investing in the Offer Shares and the PDRs involves a high degree of risk. Investors should carefully consider the following risk factors and all other information contained in the Prospectus before purchasing the Offer Shares or the PDRs. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties which the Company is unaware of, or that the Company currently deems immaterial, also may become important factors that affect the Company. If any of the following risks occur, the Company's business, financial condition or results of operations could be materially and adversely affected. In that case the trading price of the Offer Shares and the PDRs could decline and investors may lose some or all of their investment. Neither is the Company's past performance an indication of its future performance. Investors should undertake independent research regarding the Company and the trading of securities before commencing any trading activity and may request all publicly available information regarding the Company and the Offer Shares and the PDRs from the SEC. Each investor should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Offer Shares and the PDRs.

Risks Relating to the Company and the Television Industry

Television advertising expenditures depend on numerous factors beyond the Company's control.

Substantially all of the revenue of commercial terrestrial free-to-air television broadcasters in the Philippines, including the Company, is derived from the sale of advertising spots between programming and other forms of advertising. The demand for such advertising and the price at which such advertising can be sold by television broadcasters is dictated by the overall demand for advertising in the Philippines and, in particular, demand for television advertising. The Company's ability to sell advertising time depends on numerous factors, some of which are beyond its control, including:

- the health of the economy in the local markets where the Company's stations broadcast and in the nation as a whole;
- the viewing preferences of television audiences;
- fluctuations in pricing for local and national advertising;
- the activities of the Company's competitors, including increased competition from other forms of advertising-based media, particularly newspapers, satellite television networks, cable television networks, the Internet and radio; and
- changes in the makeup of the population in the areas where the Company's stations are located.

Because businesses generally reduce their advertising budgets during economic recessions or downturns, the reliance upon advertising revenue makes the Company's operating results particularly susceptible to prevailing economic conditions. According to ZenithOptimedia, an independent media research company, total television advertising expenditure in the Philippines grew by a CAGR of 17.8% from 1996 to 2006. There can be no assurance that total television advertising expenditure in the Philippines will continue to grow, or that it will not contract in the future. Any contraction in advertising expenditure in the Philippines and, in particular, any contraction in television advertising expenditure, will have a material adverse effect on the Company's business, financial condition and results of operations.

The television industry in the Philippines is subject to intense competition.

The Company's television and radio stations face intense competition for audience share from:

- other television broadcasting stations;
- cable, direct broadcast satellite and alternative methods of broadcasting brought about by technological advances and innovations, such as pay-per-view and home video and entertainment systems; and
- other sources of news, information and entertainment, such as streaming video broadcasts over the Internet, newspapers, movie theaters and live sporting events.

As at December 31, 2006, there were 62 licensed commercial terrestrial free-to-air television broadcasters in the Philippines and 677 cable pay television operators approved by the National Telecommunications Commission ("NTC"). Increased competition from free-to-air television stations as well as cable television, satellite television and other developing technologies may erode the Company's market share. In addition to competing with other media outlets for audience share, the Company also competes for advertising revenues, which comprise the Company's primary source of revenues, with other television and radio stations in their respective markets, as well as with other advertising media such as newspapers, the Internet, magazines, outdoor advertising, transit advertising, yellow page directory and direct mail. There can be no assurance that the Company will be able to maintain or increase its current share of total television advertising expenditure and this could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's revenues are derived from a relatively limited number of advertisers.

The Company derives a significant portion of its advertising revenues from a limited number of large corporate advertisers. In 2006, the Company's top 20 advertisers accounted for approximately 63% of gross advertising revenues from television broadcasting and the top five advertisers accounted for approximately 38%. The Company believes that, as a result of volatility in the Philippine economy, many smaller advertisers have significantly reduced or discontinued television advertising. This has increased the Company's reliance on a small number of large advertisers with greater resources. Furthermore, the Company must devote significant resources to maintain existing and develop new relationships with advertisers. The loss of any major advertisers, damage to the Company's relationships with its advertisers, reduction in the overall number of advertisers due to industry consolidation or the discontinuance of smaller advertisers or a significant reduction in television advertising by major advertisers would have a material adverse effect on the Company's results of operations and financial condition.

The Company is limited in the amount of airtime it can dedicate to revenue-generating advertising.

The Company derives its revenues from selling airtime minutes to advertisers. The Company currently sells up to 20 minutes of advertising airtime per broadcast hour. As at December 31, 2006, the Company's overall load factor was 62%, including 86% in Prime Time. Given the Company's relatively high load factor, particularly in Prime Time, the Company faces constraints in its ability to increase advertising revenues by increasing the number of advertising minutes and must rely primarily on continued increases in average television advertising rates. There can be no assurance that the Company will be able to increase revenues by extending its advertising airtime minutes per hour or by raising its advertising rates.

The Company may not successfully implement its growth strategy.

The Company is implementing a growth strategy both domestically and abroad. In the Philippines, the Company is continuing to develop its television channel, *Qtv*, which was launched in November 2005. The Company has invested significant programming, management, operational and other resources in ensuring the continued success of this channel and of Channel 7, which has placed significant demands on the Company's management and other resources. Additionally, *Qtv's* operations depend on Citynet's continuing contract with ZBNI and ZBNI's franchise. *Qtv* operates under a co-production and block-time agreement with ZBNI by providing programming on airtime supplied by ZBNI on Channel 11. As such, *Qtv's* operations depend on the continued validity of ZBNI's franchise, permits, licenses and authorizations and their renewal upon expiration, as well as on the validity, compliance with and performance of the terms of the co-production and block-time agreement. Further, the Company plans to continue to devote substantial resources to improve its production capability and infrastructure to further broaden its presence throughout the Philippines. For example, the Company is in the process of constructing two new television studios on a property adjacent to the GMA Network Center and, as of March 31, 2007, has already expended approximately ₱200 million for this project. The Company's future growth may be adversely affected if it is unable to make these investments or to pursue these acquisitions, or if these investments and acquisitions prove unsuccessful.

The Company's overseas growth strategy will involve entering into strategic alliances and partnerships with, and investments in, foreign television and other broadcasters. The Company continues to seek partnerships with foreign broadcasters to broadcast *GMA Pinoy TV* into new markets globally. The Company also plans to launch a second international channel in 2007. The Company's success in implementing its overseas strategy will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, successfully finance, close and integrate such investments and acquisitions, control costs and maintain sufficient operational and financial controls.

As at the date of this Prospectus, the Company is evaluating several potential investments, but, other than as set out in this Prospectus, it has not entered into any definitive commitment or agreement for any such material investment, partnership or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, the Company may decide to delay, modify or forego some aspects of its growth strategies, and its future growth prospects could be adversely affected.

The Company's operating results are dependent on the success of its programming.

The Company's advertising revenues are substantially dependent on the success of its television network. The Company makes significant commitments to produce innovative programming as well as acquire rights to television programs. The success of such programs is dependent partly upon unpredictable factors such as audience preferences, competing programming, and the availability of other entertainment activities. The Company may not be able to sell enough advertising to cover the costs of the program. In some instances, the Company may be forced to replace or cancel programs before their costs have been fully amortized, resulting in write-offs that increase the Company's operating costs.

The Company's programming may become more expensive to produce.

The Company's cost of programming may increase as it attempts to maintain or upgrade the quality of such programming and/or broadcast a greater number of network-produced programs. The cost of network-produced programs are subject to many variables including talent fees, equipment rentals and tapes, sets and supplies and as the Company increases the number of programs it produces, its variable costs will increase. The Company's cost of programming could also increase as a result of competition for available programming. Any material increase in the Company's programming costs will have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is dependent on on-air personalities and other artistic talents.

The Company relies on services of several on-air personalities who have significant loyal audiences in their respective markets, most of whom have entered into talent agreements with the Company. The ratings and overall success of the Company's programs is dependent to a significant extent on the personalities and audience appeal of the Company's artistic talents. There is no assurance that on-air personalities and other artistic talents will remain with the Company beyond their talent agreements. The loss of any such important on-air personalities and artistic talents could have a material adverse effect on the Company's results of operations and financial condition.

Television and radio broadcasting regulations by the Philippine Government may restrict the way the Company conducts its business.

The Company requires licenses or other authorizations from various national authorities to conduct its broadcasting business. These national authorities include among others, the NTC and the Movie and Television Review and Classification Board ("MTRCB"). The NTC issues permits and licenses to operate and the MTRCB issues permits for the import, export, distribution and exhibition of movies and television programs. The Company's current broadcast licenses expire at various dates. The Company cannot guarantee that its franchise, upon expiration, or its current licenses or authorizations will be renewed or reissued following their expiration or that they will not be revoked. Although the Company believes that it is currently in compliance in all material respects with applicable laws, rules, regulations and licensing requirements, there can be no assurance that it will continue to be in compliance, or that changes in laws, regulations or governmental policy affecting the Company's business activities, such as decisions by regulators as to the granting, amendment, renewal, revocation or termination of licenses or broadcast agreements, will not be adopted or make compliance more difficult or expensive. Additionally, the Company may wish to engage in new lines of business in the future, such as digital radio, for which it may be necessary to obtain licenses or approvals from national authorities. There can be no assurance that the Company will be able to obtain the approvals of licenses necessary to enter into new lines of business.

Furthermore, there can be no assurance that the terms of any new legislation imposed by national, provincial or local government bodies in areas where the Company operates or broadcasts will not impose onerous requirements on the Company or restrict the way in which it currently conduct its business. Any such changes, particularly with regard to the term of existing broadcasting licenses, the situations in which current broadcasting licenses may be revoked by law or their renewal rejected, and the status, roles and authority of independent regulators of the television industry, could have a material adverse effect on the Company's business, financial condition and results of operations. Any new restrictions may also reduce the amount of permitted advertising time or regulate the advertising of certain products.

The Company may be subject to a limit on the number of television and radio stations it owns and operates.

Presidential Decree No. 576-A which was promulgated in 1974, declares that, among other things, no person or corporation may own, operate, or manage more than one radio or television station in one municipality or city; nor more than five AM and five FM radio stations; nor more than five television channels in the Philippines. Any person or corporation which owns more than the authorized number of radio or television stations must divest itself of the excess stations or channels. The failure to divest will subject the person or corporation to cancellation of the franchise of every excess station and confiscation of the station and its facilities without compensation.

Belo Gozon Elma Parel Asuncion & Lucila Office, legal counsel of the Company, is of the opinion that PD 576-A does not apply to the Company as Article XVI of the 1987 Philippine Constitution, which is a later and more specific law, gives Congress the power to define the terms of a mass media franchise and the Company's Congressional franchise does not limit the number of television and radio stations that the Company may own. With licenses duly issued by the NTC, the Company currently owns and operates 46 television stations, including two in the city of Cebu. The Company currently owns 25 operating radio stations, including one radio station for which it has minority-ownership, with two in the city of Cebu and two in Quezon City. The Company's legal counsel further opines that the NTC grant of these licenses confirms its opinion on the nature of the mass media franchise granted by Congress to the Company as a special law that prevails over P.D. No. 576-A, a general law. If a challenge is sustained against the Company's Congressional franchise based on the restrictions under P.D. No. 576-A, and these restrictions are enforced upon the Company, the Company may be subject to penalties, including the cancellation of the franchises of excess radio and television stations, and this will have a material adverse effect on the Company's business, financial condition and results of operations.

Television ratings may be inaccurate.

Television ratings in the Philippines are principally calculated by only one company, AGBNMR Phils. which is independent of all of the television broadcasters in the Philippines. A second ratings company, TNS Phils., is expected to launch operations in the first half of 2007. The share of television advertising expenditure that any television broadcaster enjoys is dependent in large part upon the television broadcaster's ratings, which advertisers rely on as a major factor in making their advertising expenditure decisions. The estimated results from the surveys conducted by rating companies may be inaccurate and may not reflect the actual audience share of any particular television station, including the Company's. There can be no assurance that changes in the systems used, or the cities covered by, these ratings surveys will not reduce the Company's ratings. Any such reductions could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may be subject to potential liability for claims of defamation or infringement of copyrights or trademarks.

Television stations face potential liability for defamation, copyright or trademark infringement and other claims based on the nature and content of their programs. For example, a Philippine Supreme Court decision promulgated on January 17, 2005 affirmed the decision of the lower court holding that the operator of a network may be held joint and severally liable with broadcasters, as joint tortfeasors, to pay damages to a party arising from libelous broadcasts made against such party. In the event of any successful claim against the Company for such liability, there could be a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not have adequate protection for its intellectual property.

The Company relies on a combination of contractual rights and patent, copyright and trademark laws to establish and protect proprietary rights in its programming. If the Company is unable to establish or protect these rights in the Philippines or in other jurisdictions where the Company broadcasts its programming, the Company's competitors may be able to use its intellectual property to compete against it. This could limit the Company's growth and adversely affect its results. Failure to protect the Company's property rights could cause it to incur substantial liabilities and result in a material adverse effect on its business, financial condition and results.

The Company faces risks relating to the shortage of human resources with the necessary skills and experience in the television industry.

In the Philippines, the pool of human resources with the necessary skills and experience required in the television industry is limited. The Company invests significant resources in training employees and equipping them with the necessary technical skills. In the event that the Company were to lose a large number of its skilled and experienced employees it may be difficult to find replacements with suitable experience and competence and the Company may lose the investments it has made in training personnel. The Company will also require additional skilled employees as it continues to grow its business, which may not be available. The inability of the Company to find suitably trained personnel required to operate and grow its business could have a material adverse effect on its business, financial condition and results of operations.

The Company requires substantial capital to maintain and improve its production and broadcasting facilities.

The Company relies on technologically advanced equipment for both program production and broadcasting. There have been rapid advances in all types of television equipment and the cost of consistently maintaining and upgrading program production and broadcasting equipment is high. As a result, the Company has had to, and will continue to, use its financial resources to construct the GMA Network Center Annex, to outfit this facility and others with advanced equipment and to train its employees to use such new equipment. For example, with the development in recent years of digital technologies, among other things, television stations, including the Company, have had to shift from the use of analog technology to digital technology to improve efficiency. Technologically advanced equipment is typically purchased in foreign currencies, which also subjects the Company to foreign exchange risks.

Developments in radio technology, such as the possible implementation in the Philippines of digital audio broadcasting, the quality of which is significantly higher than that now provided by radio stations and networks using analog technology, could also affect competition in the radio marketplace. The Company may be unable to compete with other more technologically advanced and better funded broadcasters if it fails to upgrade its equipment sufficiently quickly or fails to do so successfully or has insufficient funds to keep pace with developments. Such failure could have a material adverse effect on the Company's business, financial condition and results.

System failures could disrupt the Company's operations.

The Company's broadcast system is vulnerable to damage or cessation of operations from fire, earthquakes, severe storms, power loss, telecommunications failures, network software flaws, transponder failure, acts of terrorism and other catastrophic events. The Company may experience failure or shutdowns relating to individual components of the system or even catastrophic failure of its entire broadcast system. Additionally the Company relies on the MEASAT-2 satellite to distribute its broadcast signal to various relay stations across the Philippines which in turn rebroadcast the signal to consumers. Any damage to or interference with the MEASAT-2 satellite or the Company's uplink facility could disrupt the Company's broadcasts. Any failure of the Company's system, including the MEASAT-2 satellite or any link in the delivery chain, whether from operational disruption, natural disaster or otherwise, may result in serious disruption or even suspension of the Company's operations for a prolonged period. Any ongoing disruption in the Company's broadcasts could result in the loss of audiences and advertisers and damage the Company's public image. The Company's insurance may be inadequate to cover losses associated with such events.

The Company is controlled by three substantial shareholding groups.

Following the Combined Offer, the Duavit Family, the Gozon Family and the Jimenez Family will hold 28.35%, 24.21% and 28.29%, respectively, of the Company's enlarged share capital, including the Preferred Shares, assuming that the Over-allotment Option is not exercised and without giving effect to the ESOP. As such, no single shareholder will hold a majority of the shares of the Company. Any dispute or disagreement among the three shareholders regarding the management of the Company and its business could lead to delays in decision making or even prevent important decisions from being made, which could have a material adverse effect on the business, financial condition and results of the Company. Additionally, acting together they have the ability to control any decision which requires shareholder approval. The interests of these family members may differ from those of the Company's other shareholders, and they could act in concert to vote their Common Shares and Preferred Shares in a manner that is detrimental to the interests of the Company or of the Company's other shareholders.

The Company may be subject to potential liability for claims by individuals engaged as talents or independent contractors who are subsequently characterized as regular employees.

In the recent Supreme Court cases of ABS-CBN Broadcasting Corp. v. Marquez, et al., decided in June 2005, and ABS-CBN Broadcasting Corp. v. Nazareno, et al., decided in September 2006, individuals hired by a television network as "talents" were held to be regular employees entitled to benefits and security of tenure under the law. These cases involved the employment of "program employees", such as production assistants, camera operators and other production crew members, hired to render services for a specific program broadcast by the network. Notwithstanding the fact that these individuals were hired as "talents", the Supreme Court ruled that the individuals were not independent contractors but were, in fact, regular employees of the network. Two recent Supreme Court decisions in June 2007, namely Thelma Dumpit-Murillo v. Court of Appeals, et al. and Consolidated Broadcasting Systems v. Oberio, et al., reaffirmed the earlier decisions and held that individuals hired under talent contracts or as piece rate contractors, respectively, were deemed to be regular employees and therefore entitled to all benefits to which regular employees are entitled. In Thelma Dumpit-Murillo v. Court of Appeals, et al., the Supreme Court came to its decision through the application of a "four-fold test" on employer-employee relations to determine whether the complainant was a regular employee, namely: (1) the selection and engagement of the employee, or the power to hire; (2) the payment of wages; (3) the power to dismiss; and (4) the power to control the employee. In Consolidated Broadcasting Systems v. Oberio, et al., the Supreme Court held that under Policy Instruction No. 40, an employer is obliged to execute contracts specifying the nature of the work to be performed, rates of pay, and programs in which they will work, and that, in this case, no contracts existed and thus, the talents should be deemed regular employees.

As a result of these decisions, there is a risk that talents whose services are engaged by the Company, may be regarded by courts as regular employees of the Company, where such individuals do not actually furnish an independent business or professional service, notwithstanding their designation as “talents”. Currently, the Company is involved in six pending labor cases involving claims for illegal dismissal under talent contracts. These cases involve 18 individuals who were engaged as cameramen, researchers, television technicians, set designers, television hosts or associate producers. If the individuals involved in the pending litigation or in any future litigation are held to be regular employees, the Company may be obliged to provide to such talents all benefits it pays to its regular employees, which could result in higher costs to the Company and adversely affect the Company’s financial condition. See “Business — Legal Proceedings”.

Risks Relating to the Philippines

Political or social instability could have a negative effect on the Company’s financial results and business.

The Philippines has from time to time experienced political and military instability. Political instability in the Philippines occurred in the late 1980’s when Presidents Ferdinand Marcos and Corazon Aquino held office. In 2000, the then President of the Philippines, Joseph Estrada, was subject to allegations of corruption, culminating in impeachment proceedings, mass public protests in Manila, withdrawal of support of the military and his removal from office. The then-Vice President, Gloria Macapagal-Arroyo, was sworn in as President on January 20, 2001. On July 27, 2003, a group of 70 officers and over 200 soldiers from the Philippine Army, Navy and Air Force attempted a coup d’état against the Arroyo administration which ended after 20 hours of negotiation between the group and the Government. Certain individuals identified with the administration of former President Estrada have been implicated as supporters of the failed coup d’état.

In May 2004, the Philippines held presidential elections as well as elections for the Senate and the House of Representatives. President Arroyo was elected to a six-year term. However, certain opposition candidates, including defeated presidential candidate Fernando Poe, Jr., questioned the election results, alleging fraud and disenfranchisement of voters. Allegations of fraud committed during the May 2004 election have intensified since early June 2005 in light of revelations that President Arroyo had spoken with an official from the independent Commission on Elections during the counting of votes. President Arroyo has admitted to speaking with an election official, but insists that she did not participate in fraud or induce the Commission on Elections to tamper with the election results. On July 7, 2005, in a speech broadcast nationwide, President Arroyo called upon her entire cabinet to submit courtesy resignations in order to rebuild a new administration that could more efficiently implement economic reforms. The next day, ten of President Arroyo’s senior governmental officials submitted their resignations and urged President Arroyo to resign as well. Subsequently, three additional presidential advisors resigned. President Arroyo has since replaced these senior officials. On July 25, 2005, impeachment complaints against President Arroyo were referred to the House of Representatives’ Committee on Justice and subsequently dismissed on August 31, 2005. Several cases were filed with the Supreme Court questioning the constitutionality of the decision but none have been successful. On June 26, 2006, a new impeachment complaint was filed against President Arroyo in the House of Representatives following the expiration of the one-year period in which the Philippine constitution allowed only one impeachment proceeding against the President. In August 2006, this second complaint was dismissed by the House of Representatives.

There have been media reports of military plots to remove President Arroyo from office. On February 24, 2006, President Arroyo issued Proclamation 1017, which declared a state of national emergency in response to reports of an alleged attempted coup d'etat. In connection with the proclamation, a number of opposition members were arrested or threatened with arrest. On March 3, 2006, President Arroyo lifted the state of national emergency. On May 3, 2006, the Supreme Court ruled that certain acts committed by law enforcement officials in furtherance of Proclamation 1017 were unconstitutional. There have been media reports that opposition parties, including former members of the military, continue to call for President Arroyo's resignation. In addition, mid-term elections for certain local and national government positions were held in May 2007, the votes in which are currently being counted. Uncertainty with respect to the results of the elections could cause further disruptions to the Philippine economy. If the opposition parties are successful in the election, it may increase the chance of impeachment proceedings being called or create a period of political uncertainty. No assurance can be given that the political environment in the Philippines will stabilize and any political instability in the future may have an adverse effect on the Company's business, results of operations and financial condition.

In addition, Proclamation 1017 specifically invokes Section 17, Article 12 of the Philippine Constitution, which gives the President the power to "temporarily take over or direct the operation of any privately owned public utility or business affected with public interest" in times of national emergency. As a company involved in mass media broadcasting, the Company could be considered as a business affected with public interest. The Company's franchise reserves the right of the President, in times of rebellion, public peril, calamity, emergency, disaster or disturbance of peace and order, to temporarily take over and operate the stations, to temporarily suspend the operation of any station in the interest of public safety, security and public welfare, to authorize the temporary use and operation of any station by any agency of the Government and to dictate the content that may be broadcast. In order for the President to exercise this power certain conditions must be met, including the requirement that the Congress, through prior legislation, grant the President the power to take over the station. It is unclear whether the Government would owe compensation to the Company for any such takeover. Although the President took no such action with respect to the Company during the latest national emergency, there can be no assurance that the Company's operations may not be suspended or temporarily taken over in the future should another national emergency be declared.

Furthermore, the Philippines has been subject to a number of terrorist attacks in the past three years. The Philippine army has been in conflict with the Abu Sayyaf organization which has been identified as being responsible for kidnapping and terrorist activities in the Philippines. There have been bombing incidents in the Philippines, mainly in the southern cities. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, including possibly the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network. There can be no assurance that the Philippines will not be subject to further acts of terrorism in the future.

Substantially all of the Company's operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could materially and adversely affect its business.

Currently, substantially all of the Company's business operations and assets are based in the Philippines. The Company's customer's advertising budgets are closely linked to economic growth. As the Philippine economy grows, the Company's customer's advertising budgets generally expand, which increases the demand for advertising space throughout the Company's networks. Conversely in economic downturns, the Company's customer's advertising budgets tend to decline or stagnate which decrease the demand for advertising space. As a result, the Company's income and results of operations depend, to a large extent, on the performance of the Philippine economy. A sustained economic downturn could have a material adverse effect on the Company's business, financial condition and results of operations.

In the past, the Philippine economy has experienced periods of slow or negative growth, high inflation, significant devaluation in the value of the Peso relative to the U.S. Dollar and the imposition of exchange controls. After the onset of the Asian economic crisis in mid-1997, the Philippines experienced economic turmoil characterized by currency depreciation, reduced availability and higher cost of credit, interest rate volatility, a significant decline in share prices on the PSE and a reduction of foreign currency reserves. These factors led to a slowdown in the Philippine economy in 1997 and 1998. In response, the Government adopted a number of policies in an attempt to strengthen the country's economic fundamentals. In 1999 and 2000, a number of the Philippines' economic indicators showed some improvements, though the pace of economic growth slowed again in 2001 after the impeachment trial and removal of then President Joseph Estrada through a second "People Power" movement. Since 2001, when current President Gloria Macapagal-Arroyo came to power, the economy has seen generally stable growth although it was negatively affected by political scandals, an attempted coup d'état and the uncertainty generated by the May 2004 presidential election.

During the period from the end of 1997 to the end of 2006, the value of the Peso relative to the U.S. Dollar depreciated from approximately ₱39.975 as at December 31, 1997 to ₱49.132 as at December 29, 2006. Various Company expenditures, particularly relating to broadcasting equipment and acquired programs (except local movies and programs) are denominated in foreign currencies, principally U.S. dollars. As such, the Company is exposed to risks in the event of currency fluctuations. In the past, the exchange rate of the Peso into foreign currencies has been extremely volatile. There can be no assurance that: (a) the Peso will not be subject to depreciation or volatility; (b) the current exchange rate policy will remain the same; (c) the Government will act when necessary to stabilize, maintain or increase the value of the Peso, or that any such action, if taken, will be successful. In such an event, unless the Company can successfully manage its currency exposure, there could be a material adverse effect on the Company's business, financial condition and results of operations.

Additionally, the Government's inability to generate sufficient revenues to service its budgetary requirements has created a ballooning budget deficit and has necessitated substantial domestic and international borrowings. The International Monetary Fund, the World Bank and the major credit ratings agencies have each expressed concern with the ability of the Government to continue running significant budget deficits and have urged the Government to adopt certain fiscal reform measures to address this issue. The major credit rating agencies have also expressed concerns regarding the financial problems of the National Power Corporation and delays in reforming the energy sector, which have contributed to the deterioration of the Philippines' public-sector financial position. On July 11, 2005, Standard & Poor's Ratings Services ("S&P"), downgraded its long-term foreign and local currency sovereign credit ratings outlooks for the Philippines from "stable" to "negative" while affirming the existing ratings of BB- and BB+, respectively. S&P cited its concern stemming from "the ongoing political crisis in the country—sparked by allegations of electoral impropriety by the president, and punctuated by the Supreme Court's freezing of an expanded sales tax, and the departure of President Arroyo's economic team" as the reason for this downgrade. On July 11, 2005, Fitch Ratings downgraded its long-term foreign and local currency ratings outlooks for the Philippines from "stable" to "negative" while retaining the ratings of BB and BB+, respectively and on July 13, 2005, Moody's Investors Services, Inc. ("Moody's") downgraded its long-term foreign and local currency ratings outlooks for the Republic from "stable" to "negative" while retaining the ratings at "B1," both citing similar reasons as S&P.

On February 9, 2006, S&P upgraded its long-term foreign and local currency sovereign credit ratings outlooks for the Philippines from "negative" to "stable" while affirming the existing ratings of BB- and BB+, respectively. S&P noted that "the stable outlook reflects revised expectations concerning the prospects of policy continuity and adherence to fiscal consolidation, which foreshadows improved chances for overall deficit reduction and stabilization of the country's debt dynamics." On February 13, 2006, Fitch Ratings upgraded its long-term foreign and local currency ratings outlooks for the Philippines from "negative" to "stable" while affirming the existing ratings of BB and BB+, respectively, citing similar reasons. On November 3, 2006, Moody's upgraded its long-term foreign and local currency outlooks from "negative" to "stable." In March 2007 Fitch Ratings reaffirmed its "stable" ratings outlook for the Philippines. The low sovereign ratings of the Government directly adversely affect companies resident in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. No assurance can be given that Moody's, S&P or any other international credit rating agency will not in the future downgrade the credit ratings of the Government and, therefore, negatively affect the credit ratings of Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Any deterioration in economic conditions in the Philippines as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rates, may materially adversely affect the Company's business, financial condition and results of operations.

Risks Relating to the Common Shares and the PDRs

The prices of securities fluctuate. The Common Shares and the PDRs have not been publicly traded and the relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Offer Shares or the PDRs at a suitable price or at a time they desire.

The prices of securities fluctuate, and an individual security may experience upward or downward movements, and may even lose its value. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There may be a substantial difference between the buying price and the selling price of such securities.

Prior to the Combined Offer, there has been no public market for the Common Shares or the PDRs in the Philippines. The Philippine securities markets are substantially smaller, less liquid, and more volatile than major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Share Offer Price and PDR Offer Price will be determined by the Company in consultation with the International Lead Manager and the Domestic Lead Manager and could differ significantly from the price at which the Common Shares or the PDRs will trade subsequent to completion of the Combined Offer. There can be no assurance that even after the Common Shares and PDRs have been approved for listing on the PSE, any active trading market for the Common Shares and PDRs will develop or be sustained after the Combined Offer, or that the Share Offer Price and/or the PDR Offer

Prices will correspond to the prices at which the Common Shares or the PDRs will trade in the Philippine public market subsequent to the Combined Offer. There is no assurance that investors may sell Offer Shares or PDRs at prices or at times deemed appropriate.

Future sales of substantial amounts of the Company's Shares in the public market could adversely affect the liquidity and price of the Shares and the PDRs.

Sales of a substantial number of Shares or securities exchangeable or convertible into Shares in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of the Shares and the PDRs. Each of the Company and the Selling Shareholders has agreed with the International Lead Manager and the Domestic Lead Manager, to a lock-up of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, subscribe for or purchase the Shares for a period of six months from the Listing Date. The sale of substantial amounts of Shares in the public market by any one of the Company's Shareholders, or the sale of new Shares in the public market by the Company subsequent to the expiry of the restrictive agreement described above, could have a material adverse effect on the price of the Shares and the PDRs. The Company can give no assurances as to the timing or amount of any such sales.

There may be a delay or failure in trading of the Common Shares and the PDRs.

There is an approximately two-week gap between the date on which the price of the Offer Shares and the PDRs is determined and the date on which trading of the Common Shares and the PDRs is expected to commence on the PSE. During this period, a delay in or termination of the trading of the Common Shares or the PDRs on the PSE may result from the occurrence of any one or more events, including the Domestic Lead Manager and/or the International Lead Manager exercising their rights pursuant to the Domestic Underwriting Agreement and/or the International Underwriting Agreement, as the case may be, to discharge themselves from their obligations thereunder. In the event the commencement of trading on the PSE does not occur, the Combined Offer may be terminated and investors may not be allocated the Offer Shares or the PDRs for which they initially subscribed.

Developments in other emerging market countries may adversely affect the Philippine economy and, therefore, the market price of the Common Shares and the PDRs.

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions.

Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines. For example, the 1997 Asian economic crisis triggered market volatility in other emerging market countries' securities markets, including the Philippines. Accordingly, adverse developments in other emerging market countries could lead to a reduction in the demand for, and market price of, the Offer Shares and the PDRs.

The ongoing military actions in response to the September 11, 2001 terrorist attacks on the United States, the current and the possible expansion of hostilities in Iraq, may have negative and unpredictable effects on the international, U.S. or Philippine economies or financial markets. The Company cannot predict what future effects these events may have on investors' perceptions of risk regarding investments in equity securities of companies in emerging markets or equity securities generally.

The adjusted book value per share of the Offer Shares and the Underlying Shares relating to the Primary PDR Offer issued in this Combined Offer is significantly less than the Share Offer Price or the PDR Offer Price, and investors will incur immediate and substantial dilution as a result of purchasing the Offer Shares and the PDRs.

The issue price of the Offer Shares and the PDRs in the Combined Offer is substantially higher than the adjusted book value per share of the outstanding Common Shares, the Underlying Shares relating to the Primary PDR Offer and the Preferred Shares. Therefore, purchasers of the Offer Shares and PDRs in the Combined Offer will experience immediate and substantial dilution and the existing shareholders of the Company will experience a material increase in the adjusted book value per share of the shares they own. See "Dilution" on page 51 of this Prospectus. If additional shares are issued in the future, investors may experience further dilution.

Rights of PDR Holders are limited compared to rights of holders of the Shares.

PDR Holders will have economic rights upon the occurrence of certain events in respect of the Underlying Shares, including rights to cash distributions, additional PDRs and adjustments to the PDRs, but will not enjoy voting rights with respect to the Shares. Accordingly, PDR Holders will not be able to influence the Company's management or corporate decisions in any way. In addition, PDR Holders cannot bring derivative actions against the Company as holders of PDRs. Further, as foreigners are restricted from owning shares in Philippine media companies, foreign holders of PDRs are restricted from converting their PDRs into Shares.

Risk Relating to Certain Statistical Information in this Prospectus

Certain statistics in this Prospectus relating to the Philippines, the industries and markets in which the Company's businesses compete, including statistics relating to market size, are derived from various Government and private publications, in particular, those produced by industry associations and research groups. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

USE OF PROCEEDS

The Company expects to raise gross proceeds from the Domestic Share Offer and Primary PDR Offer of approximately ₱1,552.9 million. After deducting estimated applicable taxes, underwriting fees, commissions and expenses related to the Combined Offer of approximately ₱129.4 million, net proceeds to the Company from the Combined Offer are expected to be approximately ₱1,423.5 million.

The Company will not receive any proceeds from the Secondary PDR Offer. Taxes, issue management, underwriting and selling fees and other fees and expenses pertaining to the Secondary PDR Offer shall be for the account of the Selling Shareholders.

Breakdown of Proceeds to the Company:

	in ₱ millions
Gross proceeds	₱ 1,552.9
Estimated Combined Offer expenses	129.4
Estimated net proceeds	₱ 1,423.5

The Company intends to use the majority of its net proceeds from the Domestic Share Offer and the Primary PDR Offer to finance, in part, its planned capital expenditures for 2007 and 2008. For 2007 and 2008, the Company plans to spend ₱938 million and ₱950 million, respectively, on the completion of two new television studios, the comprehensive roll-out of the regional signal strengthening and upgrade project, the implementation of a media asset management system, maintenance expenditures and the build up of the Company's regional infrastructure, production and studio facilities, to enable it to increase its broadcast capabilities outside of Mega Manila. Further details of the Company's planned capital expenditures and other uses of proceeds are detailed below:

Proposed Use	Budgeted Amount	Proposed Timing of Disbursement
	(in ₱ millions)	
Planned Capital Expenditures		
Construction of two new television studios	373	
Signal strengthening and upgrade	195	
Media asset management system	200	
Production and studio facilities	128	
Maintenance and general corporate capital expenditure	42	Throughout 2007
Total capital expenditures	938	
Funding of Retirement Plan	300	
Acquisition of Program Rights	300	
Total	1,538	

The Company also expects to use a portion of the net proceeds from the Domestic Share Offer and the Primary PDR Offer for general corporate purposes, including but not limited to working capital requirements. The Company plans to use internally generated funds to cover for any shortfall on the proposed use of proceeds. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Capital Expenditures" for further discussion of the Company's historical and budgeted capital expenditures.

Breakdown of Offer Expenses of the Company:

	in ₱ millions
Taxes	₱ up to 63.1
SEC Filing and Research Fees	up to 0.9
PSE Listing and Processing Fees	up to 5.2
Underwriting and Selling Fees	up to 51.2
Estimated Legal and Other Professional Fees	up to 6.9
Estimated Out-of-Pocket Expenses	up to 2.0
Estimated Offer Expenses	₱ up to 129.4

In the event that the actual expenses relating to the Domestic Share Offer and Primary PDR Offer differ from the above estimates, the actual net proceeds to the Company may be higher or lower than the expected net proceeds set forth above. Any increase or decrease in the net proceeds to the Company shall be addressed by making a corresponding increase or decrease, as the case may be, to the Company's provision for working capital requirements.

The net proceeds from the Domestic Share Offer and the Primary PDR Offer will be used by the Company for improvements to existing facilities and investments in capacity expansion. A portion of the net proceeds will also be used by the Company for general corporate purposes.

The foregoing discussion represents a best estimate of the use of the net proceeds of the Domestic Share Offer and the Primary PDR Offer based on the Company's current plans and anticipated expenditures. Actual use of the net proceeds may vary from the foregoing discussion and management may find it necessary or advisable to reallocate the net proceeds within the categories described above or to use portions of the net proceeds of the Domestic Share Offer and the Primary PDR Offer for other purposes.

The Selling Shareholders expect to raise gross proceeds from the Secondary PDR Offer of approximately ₱6,211.5 million based on a PDR Offer Price of ₱8.50 per PDR. After deducting estimated applicable taxes, underwriting fees, commissions and expenses related to the Offer of approximately ₱517.4 million, net proceeds to the Selling Shareholders from the Offer are expected to be approximately ₱5,694.1 million.

Breakdown of Proceeds to the Selling Shareholders:

	in ₱ millions
Gross proceeds	₱ 6,211.5
Estimated Offer expenses	517.4
Estimated net proceeds	₱ 5,694.1

Breakdown of Offer Expenses of the Selling Shareholders:

	in ₱ millions
Taxes	₱ up to 252.4
SEC Filing and Research Fees	up to 3.7
PSE Listing and Processing Fees	up to 20.8
Underwriting and Selling Fees	up to 204.9
Estimated Professional Fees	up to 27.7
Estimated Other Expenses	up to 7.9
Estimated Offer Expenses	₱ up to 517.4

DIVIDEND POLICY

The Company's Board of Directors is authorized to declare dividends only from the surplus profits of the Company. Dividends may be payable in either cash, shares or property of the Company, or a combination of the three, as the Board of Directors shall determine. The declaration of stock dividends is subject to the approval of at least two-thirds of the outstanding capital stock. The Company's Board of Directors may not declare dividends which will impair the capital of the Company.

In relation to foreign holders of PDRs, cash distributions payable upon receipt by the PDR Issuer of cash dividends from the Company may not be remitted using foreign exchange sourced from the Philippine banking system unless the foreign investment in the PDRs was first registered with the BSP. See "Philippine Foreign Investment and Exchange Controls and Foreign Ownership".

The Company is allowed under Philippine laws to declare property and stock dividends, subject to certain requirements. Upon listing of the Company's shares on the PSE pursuant to the Combined Offer, it is currently envisaged by the Company's Board of Directors that such cash dividend policy will entitle holders of the Common Shares to receive annual cash dividends equivalent to a minimum of 50% of the prior year's net income based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as the implementation of business plans, operating expenses, budgets, funding for new investments, appropriate reserves and working capital, among others. The cash dividend policy may be changed by the Company's Board of Directors at any time.

Preferred Shares receive dividend distributions at a rate of one-fifth of the dividend paid to Common Shares. This rate may be adjusted proportionately by the Board of Directors following any stock split or stock dividend declaration affecting the Common Shares and the Preferred Shares. See the sections entitled "Description of the Shares — Dividend Rights of Common Shares" and "Description of the Shares — Preferred Shares" on page 163 of this Prospectus.

DETERMINATION OF SHARE OFFER PRICE AND THE PDR OFFER PRICE

The Share Offer Price and the PDR Offer Price were determined through a book-building process and discussions between the Company and the International Lead Manager and Domestic Lead Underwriter. Since neither the Common Shares nor the PDRs have been listed on any stock exchange, there has been no market price for the Common Shares or the PDRS derived from day-to-day trading.

The factors considered in determining the Share Offer Price and the PDR Offer Price are, among others, the ability of the Company and its subsidiaries to generate earnings and cash flow, the Company's and its subsidiaries' prospects, the level of demand from institutional investors, overall market conditions at the time of launch and the market price of listed comparable companies. The Share Offer Price and the PDR Offer Price may not have any correlation to the actual book value of the Offer Shares, the Underlying Shares or the PDRs.

CAPITALIZATION

The following table sets out the unaudited consolidated short-term and long-term debt and capitalization of the Company as at March 31, 2007 as adjusted to give effect to the issuance of shares in the Combined Offering, after payment of underwriting discounts and selling concessions and estimated offering expenses. This should be read in conjunction with the Company's audited financial statements as at March 31, 2007 included in this Prospectus which are presented in accordance with PFRS effective as at January 1, 2005.

	As at March 31, 2007			
	Actual(1)		As Adjusted	
	₱	US$(2)	₱	US$(2)
	(in millions, except per share figures and percentages)			
Debt				
Short-term debt	310.7	6.3	310.7	6.3
Long-term debt	—	—	—	—
Total short-term and long-term debt	310.7	6.3	310.7	6.3
Shareholders' equity				
Capital stock	4,250.0	86.7	5,673.5	115.7
Revaluation increment in land (net)	733.6	15.0	733.6	15.0
Net unrealized gain on available for sale financial assets	0.6	0.01	0.6	0.01
Retained earnings	880.9	18.0	880.9	18.0
Total shareholders' equity	5,865.1	119.6	7,288.6	148.7
Total capitalization	6,175.8	126.0	7,599.3	155.0

(1) Material changes to the Company's capitalization since March 31, 2007 are as follows:

On April 26, 2007, the Board of Directors approved the increase in the Company's authorized capital stock from ₱5,000 million to ₱6,500 million, divided into 5,000 million common shares with par value of ₱1.00 each and 7,500 million preferred shares with par value of ₱0.20 each. On the same date, the Board of Directors approved the declaration of stock dividends amounting to ₱375 million representing 375 million common shares to all stockholders of record as of April 25, 2007. The stock dividends will be taken from the increase in authorized capital stock. The increase in the Company's authorized capital stock was approved by the SEC on May 10, 2007.

(2) Figures in US$ based on ₱49.03:$1

DILUTION

As at March 31, 2007, the Company's net tangible book value per Share was ₱1.05. Net tangible book value per Share represents tangible assets (consisting of total assets less software costs (net) and program rights (net)) minus total liabilities divided by the total number of Common Shares outstanding (the enlarged capital prior to the Combined Offer is 4,625,000,000 Common Shares which includes the 3,125,000,000 Common Shares outstanding prior to the Combined Offer as well as 1,500,000,000 Common Shares underlying the 7,500,000,000 Preferred Shares which are convertible into Common Shares).

After giving effect to the sale of the Offer Shares and PDRs under the Primary PDR Offer (at an Offer Price of ₱8.50 per Offer Share and per PDR) without giving effect to the Company's ESOP, before deducting estimated discounts, commissions, estimated fees and expenses of the Combined Offer, the net tangible book value per Share will be ₱1.31 per Offer Share. This represents an immediate increase in net tangible book value of ₱0.26 per Share to existing shareholders, and an immediate dilution of ₱7.19 per Offer Share to purchasers of Offer Shares at the Offer Price.

The following table illustrates dilution on a per Common Share basis on an Offer Price of ₱8.50 per Offer Share, taking into account the Underlying Shares with respect to the PDRs:

Offer Price per Offer Share	₱8.50
Net tangible book value per share as at March 31, 2007	₱1.05
Increase per Share attributable to the Offer Shares	₱0.26
Pro forma net tangible book value per Share after the Combined Offer	₱1.31
Dilution per Share to investors in the Offer Shares, without giving effect to the Company's ESOP	₱7.19

The following table sets forth the shareholdings, and percentage of Common Shares outstanding of existing and new shareholders of the Company immediately after completion of the Combined Offer:

	Without the Exercise of the Over-allotment Option		Assuming Full Exercise of the Over-allotment Option	
	Number	**%**	**Number**	**%**
Existing shareholders	3,894,231,000	81.00	3,757,212,000	78.15
New investors	913,461,000	19.00	1,050,480,000	21.85
Total	4,807,692,000	100.00	4,807,692,000	100.00

SELECTED FINANCIAL DATA

Investors should read the selected financial data with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and related notes included elsewhere in this Prospectus. The historical selected financial data in Philippine pesos for the fiscal years ended December 31, 2004, 2005 and 2006 were derived from the consolidated financial statements of the Company, as audited by SyCip Gorres Velayo & Co., a member practice of Ernst & Young Global, in accordance with PFRS effective as at January 1, 2005. The selected financial data in Philippine pesos presented below for the three-month periods ended March 31, 2006 and 2007 were derived from the unaudited financial statements prepared by the Company in accordance with PFRS effective as at January 1, 2005, as reviewed by SyCip Gorres Velayo & Co. The information below is not necessarily indicative of the results of future operations.

	For the year ended December 31,				For the three months ended March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱ (unaudited)	US$
	(in millions, except per share data)						
Statement of Income Data:							
Revenue							
Television and radio airtime	7,801.0	9,606.7	10,495.6	214.1	2,229.4	2,395.6	48.9
Production and others	195.6	220.3	531.5	10.8	123.8	159.0	3.2
	7,996.6	9,826.9	11,027.1	224.9	2,353.2	2,554.6	52.1
Less Revenue Deductions							
Agency and marketing commissions	1,330.7	1,581.9	1,685.7	34.4	367.0	376.9	7.7
Co-producer's share	177.2	156.4	153.5	3.1	33.4	25.4	0.5
Net Revenue	6,488.8	8,088.6	9,187.9	187.4	1,952.8	2,152.2	43.9
Production Costs	2,333.8	2,873.7	3,702.8	75.5	860.3	886.0	18.1
Gross Profit	4,154.9	5,214.9	5,485.0	111.9	1,092.4	1,266.2	25.8
General and Administrative Expenses	(1,856.5)	(2,308.9)	(2,613.0)	(53.3)	(575.4)	(595.6)	(12.1)
Interest And Financing Charges on Short-term and Long-term Loans	(122.4)	(43.6)	(38.0)	(0.8)	(3.9)	(6.2)	(0.1)
Interest Income from Short-term Investments	17.6	22.3	12.7	0.2	3.4	12.8	0.3
Equity in Net Losses of Associates and Joint Ventures	(8.8)	(7.9)	(10.4)	(0.2)	0.6	(1.1)	(0.0)
Other Income	23.9	68.9	178.0	3.6	26.2	1.2	0.0
Income Before Income Tax	2,208.6	2,945.7	3,014.3	61.5	543.4	677.3	13.8
Provision For (Benefit From) Income Tax	708.0	940.5	1,051.8	21.4	192.6	236.6	4.8
Net Income	1,500.6	2,005.2	1,962.5	40.0	350.8	440.7	9.0
Earnings Per Share							
Basic	0.546	0.729	0.491	0.010	0.11	0.10	0.002
Diluted	—	—	0.491	0.010	0.11	0.10	0.002

	As at December 31,				As at March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱ (unaudited)	US$
				(in millions)			
Balance Sheet Data:							
Cash and cash equivalents	433.6	490.6	306.6	6.2	497.1	1,043.6	21.3
Short-term investments	7.1	—	226.4	4.6	4.3	220.7	4.5
Trade and other receivables — net	3,248.4	3,105.7	3,830.7	78.1	3,111.1	3,086.8	63.0
Program rights	564.8	1,001.1	1,031.0	21.0	1,059.2	979.3	20.0
Prepaid expenses and other current assets	144.2	241.6	250.9	5.1	252.9	299.4	6.1
Total Current Assets	4,398.1	4,839.0	5,645.6	115.1	4,924.6	5,629.8	114.8
Available-for-sale financial assets	—	110.4	97.3	2.0	120.2	100.4	2.0
Investments and advances	537.4	414.7	364.0	7.4	371.3	365.0	7.4
Property and equipment at cost — net	1,983.1	2,436.5	2,522.2	51.4	2,441.9	2,528.6	51.6
Land at revalued amounts	1,352.0	1,364.8	1,371.9	28.0	1,364.8	1,371.9	28.0
Investment properties	55.0	68.2	43.4	0.9	67.4	43.0	0.9
Deferred tax assets — net	13.7	18.5	21.9	0.4	18.9	22.3	0.4
Other non current assets	178.7	136.7	167.7	3.4	127.3	167.1	3.4
Total Noncurrent Assets	4,119.9	4,549.8	4,588.4	93.6	4,511.8	4,598.2	93.8
Notes payable	387.0	276.6	577.1	11.8	227.1	310.7	6.3
Trade payables and other current liabilities	1,366.9	1,641.6	1,506.4	30.7	1,299.8	2,670.8	54.5
Income tax payable	417.8	509.3	569.2	11.6	667.9	761.6	15.5
Current portion of obligations for program rights	152.6	319.1	172.8	3.5	306.7	131.1	2.7
Current portion of long-term debt	524.6	—	—	—	—	—	—
Total Current Liabilities	2,848.8	2,746.6	2,825.4	57.6	2,501.5	3,874.1	79.0
Obligations for program rights — net of current portion	22.2	18.0	—	—	—	—	—
Pension liability	209.9	239.0	286.5	5.8	253.1	307.9	6.3
Deferred tax liabilities — net	298.0	230.0	198.9	4.0	221.9	180.9	3.7
Total Noncurrent Liabilities	530.2	486.9	485.4	9.9	475.0	488.7	10.0
Total Stockholders' Equity	5,139.0	6,155.3	6,923.2	141.2	6,459.9	5,865.1	119.6
Total liabilities and stockholders' Equity	8,517.9	9,388.8	10,234.0	208.7	9,436.3	10,228.0	208.6

	For the year ended December 31,				For the three months ended March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱	US$
						(unaudited)	
				(in millions)			
Cash Flow Data:							
Net cash generated from operating activities	1,490.3	2,719.2	1,422.8	29.0	178.2	1,217.1	24.8
Net cash used in investing activities	440.5	829.0	780.2	15.9	115.1	105.2	2.1
Net cash used in financing activities	764.9	1,833.6	831.3	17.0	55.9	373.3	7.6
Effect of exchange rate changes on cash and cash equivalents	0.3	0.4	4.7	0.1	(0.8)	(1.6)	(0.0)
Net increase (decrease) in cash and cash equivalents	285.1	57.0	(184.0)	(3.8)	6.4	737.0	15.0
Cash and cash equivalents, beginning of period	148.4	433.6	490.6	10.0	490.6	306.6	6.2
Cash and cash equivalents, end of period	433.6	490.6	306.6	6.2	497.0	1,043.6	21.3
Capital Expenditures	477.9	869.9	521.8	10.6	109.4	114.8	2.3
EBITDA[1]	2,958.0	3,677.9	4,043.3	82.5	781.6	936.0	19.1

(1) EBITDA represents net income after adding provisions for income tax, interest and other financing charges, depreciation and amortization, program rights usage and amortization of software costs. EBITDA is not a measure of performance under PFRS and investors should not consider EBITDA in isolation or as an alternative to operating income or net income as an indicator of the Company's operating performance or to cash flow from operating, investing and financing activities as a measure of liquidity, or any other measures of performance under PFRS. Because there are various EBITDA calculation methods, the Company's presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's audited and reviewed financial statements, including the related notes, contained in this Prospectus. This Prospectus contains forward-looking statements that involve risks and uncertainties. The Company cautions investors that its business and financial performance is subject to substantive risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set out in "Risk Factors." In evaluating the Company's business, investors should carefully consider all of the information contained in "Risk Factors."

Overview

The Company is a leading media broadcasting company covering all regions of the Philippines, with Channel 7 in Mega Manila and 45 other television stations nationwide. The Company also broadcasts in other countries and regions, including the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa. The vast majority of the Company's revenue is derived from the sale of advertising spots between television programming and other forms of advertising, while a smaller proportion of revenue is derived from other sources such as radio, films, subscription income from the Company's international channel and SMS-related revenues, among other things. Net revenue for the Company increased 10.2% for the three months ended March 31, 2007 compared to the three months ended March 31, 2006, 13.6% for the year ended December 31, 2006 compared to the year ended December 31, 2005 and 24.7% for the year ended December 31, 2005 compared to the year ended December 31, 2004. Net income for the Company increased 25.7% for the three months ended March 31, 2007 compared to the three months ended March 31, 2006, decreased 2.1% for the year ended December 31, 2006 compared to the year ended December 31, 2005 and increased 33.6% for the year ended December 31, 2005 compared to the year ended December 31, 2004.

The Company's advertising revenues are substantially dependent on the success of the Company's television network and the relative advertising rates charged. Advertisers' willingness to purchase advertising time is determined in part by the Company's household ratings and audience share in a given market, as well as its household ratings and audience share among a particular demographic group which an advertiser may be targeting in specific time periods. As at March 31, 2007, the Company's television network was the highest rated television network in the Philippines. According to AGBNMR Phils., for the three months ended March 31, 2007, the Company's Total Day household ratings and audience share in Mega Manila were 17.3% and 42.1%, respectively, which were higher than its nearest competitor, ABS-CBN, whose Total Day household ratings and audience share were 14.7% and 35.7%, respectively, in the same time period.

In the three months ended March 31, 2007, the Company had 179 advertisers and decreased its loading of advertising minutes by 9.4%, to 19,927 minutes from 21,988 minutes in the same period in 2006, and in the year ended December 31, 2006, the Company had 320 television advertisers and decreased its loading of advertising minutes by 5.1%, to 99,190 minutes from 104,543 minutes in 2005. The Company increased its average television advertising rates by an average of 5% in the three months ended March 31, 2007 compared to the three months ended March 31, 2006 and an average of 7% in the year ended December 31, 2006 compared to 2005.

Since 2005, the Company has identified additional revenue streams by broadcasting programming on *Qtv*, an additional channel targeted specifically toward middle- to upper-class women, a consumer group particularly attractive to advertisers, and into North America, Europe, other parts of Asia, the Middle East and North Africa through the Company's subscription-based international channel, *GMA Pinoy TV*. The Company also aims to expand the reach of its stations in cities outside of Mega Manila through the implementation of its Regional Expansion Project, as described below. According to AGBNMR Phils., in the three months ended March 31, 2007, *Qtv* had a Total Day household rating of 1.6% and an audience share of 3.8%, making it the third-highest rated station in Mega Manila. With carriage agreements now in place with cable providers in the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa, as at March 31, 2007, *GMA Pinoy TV* had approximately 136,000 international subscribers.

As at March 31, 2007, the Company had a network of 25 radio stations, 24 of which are wholly-owned and one of which is minority-owned through RGMA, which are currently used to broadcast radio programs across the Philippines. Of the 25 stations, two are located in Manila, two are in Cebu and 21 other radio stations are in the provinces. In addition to broadcasting, the Company engages in a number of other media businesses. It produces and distributes movies, distributes its television programs internationally, produces and distributes music recordings, licenses and merchandises media properties and provides video, film and audio post-production services. In addition, through one of its subsidiaries, GMA New Media, the Company operates news and entertainment portals on the Internet, and provides value-added services such as SMS-related promotions, downloads of television content and ringtones.

Factors Affecting the Company's Results of Operations and Financial Condition

The Company's ability to generate advertising revenues through maintenance of high ratings and audience share.

The Company's advertising revenues depend on the success of the Company's network programming, which, in turn, depends on the household ratings and audience share of the Company's programs. The relative advertising rates charged by television networks and stations and advertisers' willingness to purchase advertising time are determined in part by the Company's stations' household ratings and audience share in any given market, as well as its rating and share among a particular demographic group which an advertiser may be targeting in specific time periods. Market conditions are also important, as are the number of advertisers competing for available time, the size and demographic composition of the respective day-part desired and the availability of alternative advertising media in the market area. As the Company's ratings have increased and market conditions have improved, the Company's ability to charge advertising rates has correspondingly improved. For example, as the Company's Total Day household ratings have improved from 17.0% for the year ended December 31, 2004 to 17.6% for the year ended December 31, 2006 and 17.3% for the three months ended March 31, 2007, its television and radio advertising revenue has increased from ₱7,801.0 million to ₱10,495.6 million from 2004 to 2006 and ₱2,395.6 million for the three months ended March 31, 2007. The Company believes that, because its average cost efficiency, or the average cost per 30 second spot on Prime Time in relation to its television ratings, is still below that of its nearest competitor, it has the potential to increase its advertising rates in the future.

Changes in Philippine economic conditions.

Substantially all of the Company's operations and assets are located in the Philippines and, as a result, the Company's revenues are dependent on the health of the economy in the local markets where the Company's stations are located and in the Philippines as a whole. Furthermore, the Company's customers' advertising budgets are closely linked to economic growth. As the economy grows, consumers may have more income to spend and, as a result, the budgets of advertisers, who are the Company's primary customers, likewise generally expand, which increases the demand for advertising time on the Company's networks. Conversely in economic downturns, advertising budgets may decline or stagnate which may decrease the demand for advertising time. As a result, the Company's income and results of operations depend, to a large extent, on the performance of the Philippine economy irrespective of the Company's ratings or audience shares.

The Company's ability to capture new or emerging domestic and international revenue streams such as the success of Qtv and international subscription revenue from GMA Pinoy TV.

Since 2005, the Company has identified additional domestic and overseas revenue streams. In the Philippines, the Company is continuing to develop *Qtv*, an additional programming channel designed specifically for middle-to upper-class women. The Company intends to target viewers who are not current or regular viewers of Channel 7 programming. Leveraging its existing media and talent resources, the Company has strategically designed its *Qtv* programs for this demographic, recognizing that female viewers constitute the majority of television viewers and that this female demographic is also a consumer group particularly attractive to advertisers. Overseas, the Company broadcasts programming into the United States, other parts of Asia, the Middle East and North Africa through *GMA Pinoy TV*, the Company's subscription-based international channel. The Company's Philippine and overseas growth strategy may involve entering into strategic alliances and partnerships with foreign television and other broadcasters. The Company's success in implementing these strategies will depend on, among other things, its ability to identify and assess potential partners, control costs and maintain sufficient operational and financial controls.

The Company's ability to maintain relevance to viewers through predicting, responding to and influencing advertiser and viewer preferences with innovative programming concepts.

The Company believes that its improvements in ratings primarily have been driven by innovative programs which have influenced viewer preferences. The Company has influenced viewer preferences by introducing new program genres, including fantasy and reality-based programs. In other instances, in recognition of their audience's appreciation for Asian dramas, the Company aired both Taiwanese and Korean *telenovelas*. The Company's program committee actively meets each week to discuss the Company's current programming and anticipate which concepts should be developed into programs. The Company's results of operations will be affected significantly by its ability to predict, respond to and influence advertiser and viewer preferences with innovative programming concepts.

Changes in technology and introduction of competing broadcasting, advertising or distribution media.

The Company and other broadcasting stations compete for viewership against newly-evolving technologies designed for the distribution of entertainment and information. In particular, as technology changes, additional advertising media may arise, such as digital audio broadcasting, 3G telecommunications, direct broadcast satellite, home entertainment systems (including video cassette recorder and playback systems, videodiscs and television game devices), multi-channel and multipoint distribution systems (a.k.a. wireless cable), satellite master antenna television systems, and low power television stations. The Company's subsidiary, GMA New Media, has focused on capturing these new revenue streams through converging technology, such as SMS-related services and other content providing services.

Key Performance Indicators

The Company uses the following measures to assess its performance from period to period.

Ratings

The performance of a program and/or the network as a whole with respect to household ratings is the primary consideration for an advertiser in the Philippines to determine whether to advertise on a given program and/or network. AGBNMR Phils. and TNS Phils. provide ratings to the Company on a subscription basis. See "— Factors Affecting the Company's Results of Operations and Financial Condition — The Company's ability to generate advertising revenues through maintenance of high ratings and audience share", "The Philippine Television Industry — TV Ratings measurements" and "Business — Television Business — Ratings" for further information.

Load factor

Load factor refers to the amount of advertising minutes aired during the breaks in a program as a percentage of the total minutes available for advertisement. The load factor is an indication of a program or a timeblock's ability to sell advertising minutes. Load factor statistics are internally generated, although certain third parties monitor such statistics. See "Business — Television Business — Advertising" for further information.

Signal reach/coverage

The ability to reach a greater number of viewers is a part of the Company's strategy to provide its advertisers with more value for their advertising expenditures. The Company frequently assesses its signal strength and coverage by conducting in-house field intensity surveys and tests. See "Business — Competitive Strengths — Extensive Reach and Market Share", "— Television Business — Television Stations" and "— Television Business — Television Broadcast and Transmission Facilities" for further information.

Subscriber count

Subscriber count is the key performance indicator for some of the Company's initiatives to diversify its revenue base beyond advertising revenues. The number of subscribers to *GMA Pinoy TV* and to the Company's ancillary media services, such as those provided by *GMA New Media*, form the benchmark for measuring the success of these services. The Company makes internal assessments to determine the market potential for each new initiative and sets a subscriber count target accordingly. See "Business — Television Business — *GMA Pinoy TV*" for further information.

Cost control

The Company is continuously searching for ways to control costs and to improve efficiency. The Company has established systems and procedures to monitor costs and measure efficiency and has launched various initiatives and activities in relation to these efforts. See "Business — Business Strategies — Control Costs to Increase Profitability" for further information.

Critical Accounting Policies

Critical accounting policies are those that are both (i) relevant to the presentation of the Company's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how the Company's management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different circumstances, the Company has identified the critical accounting policies discussed below.

Loans and Receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as available-for-sale or as financial assets at fair value through profit and loss. Loans and receivables are carried at cost or amortized at cost, less impairment in value. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if their maturity is within 12 months from the balance sheet date. Otherwise, loans and receivables are classified as noncurrent assets.

Program Rights

Program rights with finite lives are stated at cost less any impairment in value. The cost is: (i) charged directly to income on the first airing of the program if program cost is below a certain amount determined by management; or (ii) amortized to the extent of 70% on the first airing and 30% on the second airing if program cost exceeds the amount set by management of ₱2.5 million. For series, the cost is charged to income as aired on per episode basis. For rights in perpetuity, the 70-30 amortization rule shall apply on the amount, net of residual value. For rights intended for airing over the international channels, the cost is amortized on a straight-line basis over the number of years indicated in the contract.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and impairment in value, if any. Land used in operations is carried at revalued amounts, as determined by an independent firm of appraisers in May and October 2004.

The initial cost of property and equipment comprises its purchase price, including import duties and borrowing costs and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes any asset retirement obligation. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Equipment for installation is stated at cost. Equipment for installation is not depreciated until such time that the relevant asset is put into operational use.

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Building, towers and improvements	20 years
Antenna, transmitter systems and broadcasting equipment	5 to 10 years
Communication and mechanical equipment	3 to 5 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years

The remaining useful life and depreciation methods are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably.

Airtime revenue is recognized on the date the advertisement is aired.

Goods received in exchange for airtime usage pursuant to ex-deal contracts executed between the Company and its customers, such as airline tickets, properties, vehicles and telecommunications services, are recorded at the fair market values of assets received. The fair market value is the current market price.

Tax credits on aggregate airtime credits from government sales availed of under Presidential Decree No. 1362 are recognized as income when there is reasonable certainty that these can be used to pay duties and taxes on imported capital equipment.

Subscription income is recognized on an accrual basis in accordance with the terms of subscription agreements.

Commission is recognized as income on an accrual basis in accordance with the terms of the related marketing agreements.

Rental income from property and equipment is accounted for on a straight-line basis over the lease term.

Dividend income is recognized when the Company's right to receive the payment is established.

Interest income is recognized as the interest accrues, taking into account the effective yield of the asset.

Retirement Costs

The Company has non-contributory defined benefit retirement plans, covering all permanent employees. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plans at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, pension plans, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date.

All exchange rate differences are taken into account in the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Income Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to the items recognized directly in equity is recognized in equity and not in the consolidated statements of income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax asset against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

Results of Operations

Revenue

The Company's revenue comprises:

- *Television and radio airtime.* The Company derives the majority of its revenues from sales of advertising time on its television and radio broadcasts. The Company recognizes airtime revenues upon broadcast of the advertisement, given that most sales are made on credit. The Company also has arrangements with advertisers wherein they pay the Company prior to broadcast of the advertisement. In general, the rates at which the Company sells airtime and the load factor (the proportion of available advertising minutes actually sold) determine the amount of airtime revenues the Company earns in any given period. The rates the Company is able to charge and the Company's ability to sell available advertising minutes depend on factors such as its programs' ratings, the demographic qualities of its viewers and the Company's ability to market itself as an effective medium for advertisers to reach desired audiences. In addition, rates may be discounted based on the volume of advertising airtime purchased by an advertiser. Revenue derived from Channel 7 accounted for approximately 90% of total revenues for 2006 and the three months ended March 31, 2007. Revenue from radio advertising accounted for less than 5% of total revenues for the three years ended December 31, 2006 and the three months ended March 31, 2007.

- *Production and others.* Production and others includes revenues from films, subscription income on the Company's international channel and SMS-related revenues. This item also includes the revenues of the Company's subsidiaries which are not eliminated in the consolidation of the Company's accounts.

Revenue Deductions

The Company's revenue deductions comprise:

- *Agency and marketing commissions.* Agency and marketing commissions represent the payment of a 15% agency commission on all sales of advertising spots, along with certain marketing expenses and certain discounts (such as discounts for advance payments).

- *Co-producer's share.* The co-producer's share of revenues is the amount paid to co-producers for advertising aired on co-produced programs.

Production costs. The largest component of the Company's costs and expenses is production costs with respect to its programs, and the largest component of production costs is talent fees. Production costs are expensed as they are incurred. To monitor and enhance profitability, the Company evaluates each program in terms of the revenues it generates as a multiple of its production costs. With established benchmark advertising rates, the Company is able to project the potential revenues from any given program, and thus to a certain extent is able to set production budgets required to achieve a desired level of profitability. In addition to producing its own programs, the Company purchases broadcast rights to movies and foreign television programs. The total cost of program rights are stated at cost. The cost is (i) charged directly to income on the first airing of the program if program cost is below the threshold amount of ₱2.5 million or (ii) amortized by 70% on the first airing and 30% on the second airing if the program costs exceed the ₱2.5 million threshold amount. The ₱2.5 million threshold amount is the amount of money a program or time slot would need to earn in order to break even, as estimated by the Company.

General and administrative expenses. These include, among others, costs relating to personnel, depreciation, utilities and maintenance services, transportation, advertising, rentals and professional fees. In the year ended December 31, 2006, these operating expenses equalled approximately 86% of the Company's total operating expenses.

The Company's other income/charges are comprised of interest expense and financing charges, interest income, equity in net losses of associates and joint venture, and other income — net (which includes commissions, rental income, foreign exchange losses-net, dividend income and others).

Provision for (Benefit from) income tax. The Company's provision for (benefit from) income tax is primarily comprised of deferred tax assets arising from net pension liabilities, accrued sick and vacation leaves and allowances for doubtful accounts, as well as deferred tax liabilities arising from revaluation increments in land and unamortized capitalized borrowing costs. See note 33(c) to the audited financial statements and note 32 to the reviewed financial statements for further information on pending reforms to the corporate income tax rate.

The following tables set out, for the periods indicated, certain items in the Company's statements of income, as well as each line item expressed as a percentage of revenue:

	For the year ended December 31,				For the three months ended March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱	US$
						(unaudited)	
	(in millions, except per share data)						
Statement of Income Data:							
Revenue							
Television and radio airtime	7,801.0	9,606.7	10,495.6	214.1	2,229.4	2,395.6	48.9
Production and others	195.6	220.3	531.5	10.8	123.8	159.0	3.2
	7,996.6	9,826.9	11,027.1	224.9	2,353.2	2,554.6	52.1
Less Revenue Deductions							
Agency and marketing commissions	1,330.7	1,581.9	1,685.7	34.4	367.0	376.9	7.7
Co-producer's share	177.2	156.4	153.5	3.1	33.4	25.4	0.5
Net Revenue	6,488.8	8,088.6	9,187.9	187.4	1,952.8	2,152.2	43.9
Production Costs	2,333.8	2,873.7	3,702.8	75.5	860.3	886.0	18.1
Gross Profit	4,154.9	5,214.9	5,485.0	111.9	1,092.4	1,266.2	25.8
General and Administrative Expenses	(1,856.5)	(2,308.9)	(2,613.0)	(53.3)	(575.4)	(595.6)	(12.1)
Interest And Financing Charges on Short-term and Long-term Loans	(122.4)	(43.6)	(38.0)	(0.8)	(3.9)	(6.2)	(0.1)
Interest Income from Short-term Investments	17.6	22.3	12.7	0.2	3.4	12.8	0.3
Equity in Net Losses of Associates and Joint Ventures	(8.8)	(7.9)	(10.4)	(0.2)	0.6	(1.1)	(0.0)
Other Income	23.9	68.9	178.0	3.6	26.2	1.2	0.0
Income Before Income Tax	2,208.6	2,945.7	3,014.3	61.5	543.4	677.3	13.8
Provision For (Benefit From) Income Tax	708.0	940.5	1,051.8	21.4	192.6	236.6	4.8
Net Income	1,500.6	2,005.2	1,962.5	40.0	350.8	440.7	9.0
Earnings Per Share							
Basic	0.546	0.729	0.491	0.010	0.11	0.10	0.002
Diluted	—	—	0.491	0.010	0.11	0.10	0.002

	For the year ended December 31,			For the three months ended March 31,	
	2004	2005	2006	2006	2007
	%	%	%	%	%
				(unaudited)	
Statement of Income Data:					
Revenue					
Television and radio airtime	97.6	97.8	95.2	94.7	93.8
Production and others	2.4	2.2	4.8	5.3	6.2
	100.0	100.0	100.0	100.0	100.0
Less Revenue Deductions					
Agency and marketing commissions	16.6	16.1	15.3	15.6	14.8
Co-producer's share	2.2	1.6	1.4	1.4	1.0
Net Revenue	81.1	82.3	83.3	83.0	84.2
Production Costs	29.2	29.2	33.6	36.6	34.7
Gross Profit.	52.0	53.1	49.7	46.4	49.6
General and Administrative Expenses.	(23.2)	(23.5)	(23.7)	(24.4)	(23.3)
Interest And Financing Charges on Short-term and Long-term Loans . .	(1.5)	(0.4)	(0.3)	(0.2)	(0.2)
Interest Income from Short-term Investments	0.2	0.2	0.1	0.1	0.5
Equity in Net Losses of Associates and Joint Ventures	(0.1)	(0.1)	(0.1)	0.0	(0.0)
Other Income	0.3	0.7	1.6	1.1	0.0
Income Before Income Tax	27.6	30.0	27.3	23.1	26.5
Provision For (Benefit From) Income Tax	8.8	9.6	9.5	8.2	9.3
Net Income	18.8	20.4	17.8	14.9	17.2

Three months ended March 31, 2007 compared to three months ended March 31, 2006

Revenue

Television and radio airtime. The Company's revenue from television and radio airtime was ₱2,395.6 million for the three months ended March 31, 2007 compared to ₱2,229.4 million for the three months ended March 31, 2006, an increase of ₱166.2 million or 7.5%. The increase was due to the Company's increase in average advertising rates by an average of approximately 5.0%, after taking into account discounts, which either decreased or remained the same in the first three months of 2007. The Company's increased revenues were also derived from political advertisements aired in the run-up to the May 2007 mid-term elections, for which the Company charges a significant premium over the rates it charges its corporate advertisers and receives payments in advance of airing. The increase in revenues was also due to the Company's increased revenue from *Qtv* which increased its advertising minutes loaded by approximately 11.7% in the first three months of 2007 compared to the three months ended March 31, 2006, due to the channel's transition from a new operation to a more established channel. Revenues from television airtime increased in spite of a decrease in minute loading by approximately 9.4% to 19,927 minutes compared to 21,988 minutes loaded in the three month period ended March 31, 2006. This decrease in minutes loaded was primarily due to major advertisers reducing advertising minutes purchased during the political campaign period. The increased revenues from television airtime were offset by a decrease in radio advertising revenues from ₱85.4 million in the three months ended March 31, 2006 compared to ₱54.5 million in the same period in 2007. This decrease was due to a reduction in the amount of advertising airtime purchased due to a ban on advertising of tobacco, which went into effect on January 1, 2007, as well as a reduction in advertising time purchased due to the reprogramming of an FM station.

Production and others. The Company's revenues from production and others was ₱159.0 million for the three months ended March 31, 2007, compared to ₱123.8 million for the three months ended March 31, 2006, an increase of ₱35.2 million or 28.4%. The increase was primarily due to increased revenue from subscription fees for *GMA Pinoy TV* of approximately 91.5%, to ₱94.4 million in the three months ended March 31, 2007 compared to approximately ₱49.3 million in the same period in 2006 due to an increase in subscribers from approximately 87,000 as at March 31, 2006 to approximately 136,000 as at March 31, 2007. The increase was offset by a ₱21.5 million decrease in revenues received from GMA Films, which did not enter a film into competition in the 2006 Manila Film Festival, as compared to the previous year, and consequently did not receive revenues in the first three months of 2007 from any films in release in that period.

Less Revenue Deductions

Agency and marketing commissions. The Company's agency and marketing commissions were ₱376.9 million for the three months ended March 31, 2007, compared to ₱367.0 million for the three months ended March 31, 2006, an increase of ₱9.9 million or 2.7%. The increase was due to increases in revenues derived from television airtime, resulting in a larger revenue base and a proportionate increase in commissions. As a percentage of television airtime revenues, agency commissions remained approximately the same as in 2006, at approximately 16%.

Co-producer's share. The Company's amounts allocated to co-producer's decreased, from ₱25.4 million for the three months ended March 31, 2006, compared to ₱33.4 million for the three months ended March 31, 2007 due to a discontinuation in 2006 of certain co-produced program agreements for *Qtv* programming, which replaced several of its co-produced programs with canned programs in the first three months of 2007.

Production costs. The Company's production costs were ₱886.0 million for the three months ended March 31, 2007, compared to ₱860.3 million for the three months ended March 31, 2006, an increase of ₱25.7 million or 3.0%. Talent fees accounted for ₱447.4 million for the three months ended March 31, 2007, compared to ₱441.3 million for the three months ended March 31, 2006, an increase of ₱6.0 million or 1.4%. In addition, costs for program rights usage accounted for ₱159.0 million for the three months ended March 31, 2007, compared to ₱135.4 million for the three months ended March 31, 2006, an increase of ₱23.6 million or 17.4% and costs for facilities and others accounted for ₱52.6 million for the three months ended March 31, 2007, compared to ₱57.2 million for the three months ended March 31, 2006, a decrease of ₱4.6 million or 8.0%. These increases were due primarily to the change in the mix of programming on Channel 7 to include more GMA original programs and fewer canned programs, resulting in higher talent fees. Program rights usage costs increased due to increases in the use of canned programming on *Qtv*. The increased costs were offset by decreased costs due to the re-engineering of production processes for more efficient production, as well as the implementation of cost controls.

Gross profit. As a result of the foregoing, gross profit increased to ₱1,266.2 million in the three months ended March 31, 2007, an increase of 15.9% from ₱1,092.4 million in March 31, 2006. The Company's gross profit as a percentage of revenues less agency and marketing commissions and co-producer's share increased from 55.9% in the three months ended March 31, 2006 to 58.8% in the three months ended March 31, 2007 due to the fact that costs increased at a slower rate than revenues because of the re-engineering of production processes, as well as the containment of costs through changes in the programming mix.

General and administrative expenses. The Company's general and administrative expenses were ₱595.6 million in the three months ended March 31, 2007, compared to ₱575.4 million for the three months ended March 31, 2006, an increase of ₱20.2 million or 3.5%. The increase in general and administrative expenses was due primarily to personnel costs, which increased by ₱23.7 million, or 11.9%, in the three months ended March 31, 2006 compared to the three months ended March 31, 2007, due to the increase in employees from 1,107 to 1,206, and also to the increase in salary rates due to mandatory wage increases and increases in merit payments. General and administrative expenses also increased due to an increase in advertising expenses by ₱10.4 million, or 30.8%, from 2006 to 2007, attributable to the launch of more programs in the first three months of 2007 compared to the corresponding period in 2006 and an increase in provision for doubtful accounts by ₱13.5 million, or 901.7%, from 2006 to 2007, primarily due to increased provisioning for regional accounts. These increases were offset by a decrease in other expenses by ₱22.2 million, or 47.8%, from 2006 to 2007, due to the absence of extraordinary expenses related to the SEC registration in 2006.

Interest and financing charges from short-term and long-term loans. The Company's interest expense and financing charges were ₱6.2 million for the three months ended March 31, 2007, compared to ₱3.9 million for the three months ended March 31, 2006, an increase of ₱2.3 million or 59.0%. The increase was due to the increase in the Company's loan balances to ₱310.7 million in 2007 compared to ₱227.1 million 2006. This increase was offset by a decrease in interest rates for short-term borrowings in 2007, which ranged from 5.80% to 6.25% in 2007 compared to a range of 6.25% to 7.00% in 2006.

Interest income from short-term investments. The Company's interest income was ₱12.8 million for the three months ended March 31, 2007 compared to ₱3.4 million for the three months ended March 31, 2006, an increase of ₱9.4 million or 276.5%. The increase was due to an increase in the levels of cash available for investment resulting from increased television airtime revenue due to the purchase of additional advertising airtime for political advertisements, as well as greater cash balances due to increased efficiencies in collections.

Other Income/Charges

Equity in net losses of associates and joint venture. The Company's equity in net losses of associates and joint venture were ₱1.1 million in the three months ended March 31, 2007 compared to a gain of ₱0.6 million for the three months ended March 31, 2006, a decrease of ₱1.7 million or 283.3%. The decrease was due primarily to losses incurred by Philippine Entertainment Portal, Inc., the operating company of Pep.ph, an entertainment portal, and by RGMA in 2007.

Other income. The Company's other income was ₱1.2 million for the three months ended March 31, 2007, compared to ₱26.2 million for the three months ended March 31, 2006, a decrease of ₱25.0 million or 95.4%. The decrease was primarily due to unrealized foreign exchange gains as the Philippine peso stabilized relative to the U.S. dollar in 2007.

Provision for Income Tax

The Company's provision for income tax was ₱236.6 million for the three months ended March 31, 2007, compared to ₱192.6 million for the three months ended March 31, 2006, an increase of ₱44.0 million or 22.8%. The increase was due to an increase in taxable income because of the increase in the Company's gross profit.

Net Income

Net Income increased from ₱350.8 million for the three months ended March 31, 2006 to ₱440.7 million for the three months ended March 31, 2007, an increase of ₱89.9 million or 25.6% due to all of the factors mentioned above.

Year ended December 31, 2006 compared to year ended December 31, 2005

Revenue

Television and radio airtime. The Company's revenue from television and radio airtime was ₱10,495.6 million for 2006 compared to ₱9,606.7 million for 2005, an increase of ₱888.9 million or 9.2%. The increase was due to the Company's increase in average advertising rates by an average of approximately 7.0%, after taking into account discounts, in 2006. The Company was able to increase advertising rates because of the continued high ratings it enjoyed in part due to the success of its new shows, including *Captain Barbell*, *Majika* and *I Luv NY*. The increase in revenues was also due to the Company receiving ₱202.2 million in revenue from the first full year of broadcasting for *Qtv*, which commenced broadcasting in November 2005. Revenues from television airtime increased in spite of an industry-wide drop in minute loading by 3% from 2005. The Company's total minutes loaded decreased in 2006 by 5% to 99,190 minutes compared to 104,543 minutes in 2005. The increased revenues from television airtime were offset by a decrease in radio advertising revenues from ₱370.8 million in 2005 compared to ₱329.6 million in 2006. This decrease was due to a slowdown in the amount of advertising airtime purchased by tobacco companies due to the anticipation of a ban on advertising by tobacco companies, which went into effect on January 1, 2007.

Production and others. The Company's revenues from production and others was ₱531.5 million for 2006, compared to ₱220.3 million for 2005, an increase of ₱311.1 million or 141.2%. The increase was primarily due to increased subscription fees from *GMA Pinoy TV*, which contributed ₱302.8 million in revenues in 2006 compared to approximately ₱48.0 million in 2005 due to an increase in subscribers from approximately 60,348 as at December 31, 2005 to approximately 126,054 as at December 31, 2006. The increase was also due to a 21% increase in revenues received from GMA Films, which produced more films in 2006 than 2005. In addition, *Mulawin (the Movie)* received an "A" rating and *Moments of Love* and *Till I Met You* received "B" ratings from the Film Development Council of the Philippines, which entitled the Company to receive rebates on local amusement taxes on 100% of revenues for *Mulawin (the Movie)*, which was initially released in November 2005 but which continued to generate revenue in 2006, on 30% of revenues for *Moments of Love* and *Till I Met You*, which were both released in 2006.

Less Revenue Deductions

Agency and marketing commissions. The Company's agency and marketing commissions were ₱1,685.7 million for 2006, compared to ₱1,581.9 million for 2005, an increase of ₱103.8 million or 6.6%. The increase was due to increases in revenues derived from television airtime, resulting in a larger revenue base and a proportionate increase in commissions. As a percentage of television airtime revenues, agency commissions remained approximately the same as in 2005, at approximately 16%.

Co-producer's share. The Company's amounts allocated to co-producer's decreased, from ₱156.4 million for 2005, compared to ₱153.5 million for 2006 due to a reduction in sales revenue generated by a co-produced program, as well as a reduction in a co-producer's share, from 60% to 50%.

Production costs. The Company's production costs were ₱3,702.8 million for 2006, compared to ₱2,873.7 million for 2005, an increase of ₱829.1 million or 28.8%. Talent fees accounted for ₱1,745.6 million for 2006, compared to ₱1,301.4 million for 2005, an increase of ₱444.2 million or 34.1%. In addition, costs for program rights usage accounted for ₱581.5 million for 2006, compared to ₱299.1 million for 2005, an increase of ₱282.4 million or 94.4% and costs for facilities and others accounted for ₱405.5 million for 2006, compared to ₱378.7 million for 2005, an increase of ₱26.8 million or 7.1%. These increases were due primarily to costs incurred from production for the first full year of broadcasts on *Qtv* and *GMA Pinoy TV*, as well as continuing production costs for Channel 7, which included the higher production costs for fantasy programs such as *Captain Barbell* and *Majika*. Fantasy programs are more costly to produce due to their extensive use of on-site and post-production special effects, location shoots, props, sets, wardrobes and large casts.

Gross profit. As a result of the foregoing, gross profit increased to ₱5,485.0 million in 2006, an increase of 5.2% from ₱5,214.9 million in 2005. The Company's gross profit as a percentage of revenues less agency and marketing commissions and co-producer's share declined from 64.5% in 2005 to 59.7% in 2006 due to the relatively lower profitability of *Qtv*.

General and administrative expenses. The Company's general and administrative expenses were ₱2,613.0 million in 2006, compared to ₱2,308.9 million for 2005, an increase of ₱304.1 million or 13.2%. The increase in general and administrative expenses was due primarily to the first full year of production and broadcasting for *Qtv* and *GMA Pinoy TV*, which led to increased in personnel costs. Personnel costs increased by ₱124.3 million, or 14.4%, from 2005 to 2006, due to the increase in employees from 1,081 to 1,173, and also to the increase in salary rates due to mandatory wage increases. General and administrative expenses also increased due to an increase in rental expenses by ₱24.2 million, or 55.5%, from 2005 to 2006, due to the need for increased transponder capacity for broadcasts of *GMA Pinoy TV*, an increase in professional fees by ₱67.0 million, or 63.4%, from 2005 to 2006, primarily due to additional consultant fees, and an increase in taxes and license expenses by ₱22.3 million, or 34.1%, from 2005 to 2006, due to increases in revenues derived from television airtime.

Interest and financing charges from short-term and long-term loans. The Company's interest expense and financing charges were ₱38.0 million for 2006, compared to ₱43.6 million for 2005, an improvement of ₱5.6 million or 12.8%. The decrease was due to the lower level of interest expenses from borrowing in 2006 compared to 2005 as a result of the Company's full settlement of its ₱1.9 billion long-term debt facility in February 2005, as well as lower levels of short-term borrowings in 2006 compared to 2005. Further, the interest rates for short-term borrowings in 2006 remained constant at a range of 6.25% to 7.00% as in 2005.

Interest income from short-term investments. The Company's interest income was ₱12.7 million for 2006 compared to ₱22.3 million for 2005, a decrease of ₱9.6 million or 43.0%. The decrease was due to lower levels of cash available for investment resulting from the use of operating cash flow to finance the working capital of *Qtv* and *GMA Pinoy TV* and for dividend payments.

Other Income/Charges

Equity in net losses of associates and joint venture. The Company's equity in net losses of associates and joint venture were ₱10.4 million in 2006 compared to ₱7.9 million for 2005, an increase of ₱2.5 million or 31.6%. The increase was due primarily to losses incurred by INQ7 Interactive, Inc. in 2006 and to the purchase of additional equity interests in Mont-Aire Realty and Development Corporation ("Mont-Aire"). The losses recorded by these companies in 2006 were greater than the Company's losses from Film Experts, Inc. and Image One Multi Media Corporation ("Image One") in 2005 that were divested through dividend distributions in 2006.

Other income. The Company's other income was ₱178.0 million for 2006, compared to ₱68.9 million for 2005, an increase of ₱109.1 million or 158.3%. The increase was primarily due to the reversal of losses from the divestment through property dividends of the Company's equity interests in Film Experts, Inc. and Image One. The increase was also due to the appreciation of the Philippine peso relative to the U.S. dollar in 2006, which resulted in foreign exchange translation gains. Other income also increased due to an increase in payments from advertisers of ₱21.7 million in 2006 compared to 2005, or 94.8%, for alternative forms of advertising, including product placements.

Provision for Income Tax

The Company's provision for income tax was ₱1,051.8 million for 2006, compared to ₱940.5 million for 2005, an increase of ₱111.3 million or 11.8%. The increase was due to an increase in taxable income because of the increase in the Company's revenues, as well as an increase in the tax rate from 32.0% to 35.0% with effect from November 2005.

Net Income

Net Income decreased from ₱2,005.2 million for 2005 to ₱1,962.5 million for 2006, a decrease of ₱42.7 million or 2.1% due to all of the factors mentioned above.

Year ended December 31, 2005 compared to year ended December 31, 2004

Revenue

Television and radio airtime. The Company's revenue due to television and radio airtime was ₱9,606.7 million for 2005, compared to ₱7,801.0 million for 2004, an increase of ₱1,805.7 million or 23.1%. The increase was due to the Company's increase in average advertising rates by an average of approximately 10.3%, after taking into account discounts, in 2005. The Company was able to increase advertising rates because of the high ratings it enjoyed due in part to its successful introduction of fantasy programs such as *Darna*, *Sugo* and *Encantadia*. The high ratings also led to an approximately 12.7% increase in loading of revenue-generating advertising minutes in 2005, to 104,543 minutes compared to 92,774 minutes in 2004. The Company's increased initiatives to target nationwide viewership also contributed to its increase in revenues. Revenues from radio advertising also increased from ₱337.3 million to ₱370.8 million in 2005 compared to 2004.

Production and others. The Company's revenues due to production and others were ₱220.3 million for 2005, compared to ₱195.6 million for 2004, an increase of ₱24.7 million or 12.6%. The increase was primarily due to GMA New Media which contributed ₱106 million to revenues, net of payments to telecommunications companies, in 2005. The increase was also due to the resumption of film production by GMA Films, which accounted for ₱56 million in revenues in 2005, compared to none in 2004. Increased revenues were also due to the launch of the international channel *GMA Pinoy TV* in August 2005.

Less Revenue Deductions

Agency and marketing commissions. The Company's agency and marketing commissions were ₱1,581.9 million for 2005, compared to ₱1,330.7 million for 2004, an increase of ₱251.2 million or 18.9%. The increase was due to increases in revenues derived from television and radio airtime, resulting in a larger revenue base and a proportionate increase in commissions. However, as a percentage of television and radio airtime revenues, agency and marketing commissions decreased from 17.0% to 16.5%. This decrease was due primarily to increased sales of advertising minutes to clients with whom the Company maintains direct accounts. As more advertising costs are charged to direct accounts that the Company maintains with a few advertisers, this number is reduced.

Co-producer's share. The Company's amounts allocated to co-producers decreased from ₱177.2 million for 2004 to ₱156.4 million for 2005, or 11.7%, due to a reduction in the number of co-production agreements from 13 in 2004 to six in 2005.

Production costs. The Company's production costs were ₱2,873.7 million for 2005, compared to ₱2,333.8 million for 2004, an increase of ₱539.9 million or 23.1%. Talent fees accounted for ₱1,301.4 million for 2005, compared to ₱1,220.6 million for 2004, an increase of ₱80.8 million or 6.6%. In addition, costs for facilities and others accounted for ₱378.7 million for 2005, compared to ₱234.9 million for 2004, an increase of ₱143.8 million or 61.2%. These increases were due primarily to the higher production costs of fantasy programs such as *Darna*, *Sugo* and *Encantadia*. Although certain costs associated with fantasy programs were incurred in 2004 with the production of *Mulawin*, in 2005, the costs increased further with the addition of three new fantasy programs. Also contributing to higher production costs was the non-recurring cost of launching *GMA Pinoy TV*. These increases were, however, offset by the decrease in line production fees by 98.4%, from ₱18.3 million in 2004 to ₱0.3 million in 2005.

Gross profit. As a result of the foregoing, gross profit increased to ₱5,214.9 million in 2005, an increase of 25.5% from ₱4,154.9 million in 2004. The Company's gross profit as a percentage of revenues less agency and marketing commissions and co-producer's share increased from 64.0% in 2004 to 64.5% in 2005.

General and administrative expenses. The Company's general and administrative expenses were ₱2,308.9 million for 2005, compared to ₱1,856.5 million in 2004, an increase of ₱452.4 million or 24.4%. The increase in operating expenses was due primarily to the launch of *GMA Pinoy TV* and *Qtv*, which led to increases in personnel costs and advertising expenditures. Personnel costs increased by ₱194.9 million, or 29.2%, from 2004 to 2005 due to the increase in employees from 800 to 1,081, and also to the increase in salary rates. The increase in spending on advertising of ₱112.7 million was due to the Company's extensive advertising and promotions in support of *GMA Pinoy TV* and *Qtv*. The increase in expenses was offset by a decrease in depreciation expenses of 4.6%, from ₱420.1 million in 2004 to ₱400.8 million in 2005.

Interest expense and financing charges from short-term and long-term loans. The Company's interest expense and financing charges were ₱43.6 million for 2005, compared to ₱122.4 million for 2004, an improvement of ₱78.8 million or 64.4%. The decrease was due to the full settlement of its ₱1.9 billion long term debt facility in February 2005, nine months ahead of its maturity date. Short-term loans for bridge financing constituted the accrued expenses for 2005.

Interest income from short-term investments. The Company's interest income was ₱22.3 million for 2005, compared to ₱17.6 million for 2004, an increase of ₱4.7 million or 26.7%. The increase was due to higher cash balances and interest rates.

Other Income/Charges

Equity in net losses of associates and joint venture. The Company's equity in net losses of associates and joint venture were ₱7.9 million for 2005, compared to ₱8.8 million in 2004, a decrease of ₱0.9 million or 10.2%. The decrease was due to successful cost-controlling measures undertaken by the Company's affiliates Image One and INQ7 Interactive, Inc., which were 49.5% and 50.0% owned by the Company, respectively.

Other income. The Company's other income was ₱68.9 million for 2005, compared to ₱23.9 million for 2004, an increase of ₱45.0 million or 188.3%. The increase was primarily due to income earned from *Let the Love Begin*, which was released in February 2005, and which received a "B" rating from the Film Development Council of the Philippines. This rating entitled the Company to receive rebates on local amusement taxes on 30% of revenue from the film. This income was offset by foreign exchange losses in 2005.

Provision for Income Tax

The Company's provision for income tax was ₱940.5 million for 2005, compared to ₱708.0 million for 2004, an increase of ₱232.5 million or 32.8%. The change was due to an increase in taxable income due to increases in the Company's revenues, as well as a rise in the tax rate from 32.0% to 35.0% in November 2005. The Company also experienced an increase in non-deductible expenditures, including pension expenses and doubtful accounts.

Net Income

Net Income increased from ₱1,500.6 million for the year ended December 31, 2004 to ₱2,005.2 million for the corresponding period in 2005, an increase of ₱504.6 million or 33.6% due to all of the factors mentioned above.

Liquidity and Capital Resources

The Company funds its capital requirements through a variety of sources, including cash from operations, short-term and long-term bank debt, working capital facilities and equity contributions. Management believes that, following the Offering, the Company will have sufficient resources available to meet its currently planned capital requirements for the next 12 months, without prejudice to changes in the Company's programmed capital requirements that may arise. The table below sets out a summary of the Company's cash flows for the periods indicated:

	For the year ended December 31,				For the three months ended March 31,		
	2004	2005	2006	2006	2006	2007	2007
	₱	₱	₱	US$	₱	₱	US$
						(unaudited)	
				(in millions)			
Cash Flow Data:							
Net cash provided by operating activities	1,490.3	2,719.2	1,422.8	29.0	178.2	1,217.1	24.8
Net cash used in investing activities	440.5	829.0	780.2	15.9	115.1	105.2	2.1
Net cash used in financing activities	764.9	1,833.6	831.3	17.0	55.9	373.3	7.6
Effect of exchange rate changes on cash and cash equivalents	0.3	0.4	4.7	0.1	(0.8)	(1.6)	(0.0)
Net increase (decrease) in cash and cash equivalents	285.1	57.0	(184.0)	(3.8)	6.4	737.0	15.0
Cash and cash equivalents, beginning of period	148.4	433.6	490.6	10.0	490.6	306.6	6.2
Cash and cash equivalents, end of period	433.6	490.6	306.6	6.2	497.0	1,043.6	21.3

Operating Activities

Net cash provided by operating activities was ₱1,490.3 million in 2004. This amount was mainly comprised of income before income tax of ₱2,208.6 million, adjustments for depreciation and amortization of ₱420.1 million due to growing capital expenditures for international and regional expansion projects and program rights usage of ₱211.3 million and changes in working capital. The primary factors for the changes in working capital were an increase in trade and other receivables of ₱958.9 million, an increase in program rights of ₱342.6 million offset by an increase in trade payables and other current liabilities of ₱356.7 million and an increase in obligations for program rights of ₱38.1 million.

Net cash provided by operating activities was ₱2,719.2 million in 2005. This amount was mainly comprised of income before income tax of ₱2,945.7 million, adjustments for depreciation and amortization of ₱400.8 million and program rights usage of ₱299.1 million and changes in working capital. The primary factors for the changes in working capital were a decrease in trade and other receivables of ₱116.1 million as revenues increase, an increase in program rights of ₱733.2 million due to the launch of *GMA Pinoy TV* and *Qtv*, offset by an increase in trade payables due to improved collection efficiency, and other current liabilities of ₱389.2 million and an increase in obligations for program rights of ₱168.2 million.

Net cash provided by operating activities was ₱1,422.8 million in 2006. This amount was mainly comprised of income before income tax of ₱3,014.3 million, adjustments for depreciation and amortization of ₱412.4 million and program rights usage of ₱581.5 million and changes in working capital. The primary factors for the changes in working capital were an increase in trade and other receivables of ₱728.3 million as revenues increase, an increase in program rights purchased of ₱613.3 million due to the first full year of broadcasting for *GMA Pinoy TV* and *Qtv*, offset by a decrease in trade payables and other current liabilities of ₱141.6 million due to a lower level in capital expenditures in 2005 compared to 2006 and a decrease in obligations for program rights of ₱164.2 million resulting from payments for program rights purchased in 2005.

Net cash provided by operating activities was ₱1,217.1 million in the three months ended March 31, 2007. This amount was mainly comprised of income before income tax of ₱677.3 million, program rights usage of ₱159.0 million, adjustments for depreciation and amortization of ₱103.9 million and changes in working capital. The primary factors for the changes in working capital were a decrease in trade and other receivables of ₱733.0 million due to timing differences in payment in the three months ended March 31, 2007 compared to the three months ended March 31, 2006, an increase in program rights purchased of ₱107.3 million which increased at a slower rate than in 2006, as 2006 was characterized by a large build up in program rights, offset by a decrease in trade payables and other current liabilities of ₱256.9 million and a decrease in obligations for program rights of ₱42.8 million resulting from less payments for program rights due to the decrease in accumulation in program rights in 2007.

Investing Activities

Net cash used in investing activities was ₱440.5 million in 2004, which primarily consisted of additions to property and equipment of ₱467.3 million and a decrease in other noncurrent assets of ₱30.7 million, partially offset by interest received of ₱13.0 million and proceeds from the sale of property and equipment of ₱6.1 million.

Net cash used in investing activities was ₱829.0 million in 2005, which primarily consisted of additions to property and equipment of ₱857.1 million essentially to meet the demands of the international channel and regional expansion, an increase in investments and advances of ₱19.3 million and partially offset by the decrease in other noncurrent assets of ₱51.4 million.

Net cash used in investing activities was ₱780.2 million in 2006, which primarily consisted of additions to property and equipment of ₱514.8 million essentially to meet the continuing development and expansion of *Qtv* and *GMA Pinoy TV*, the construction of the GMA Network Center Annex and regional expansion projects, an increase in investments and advances of ₱23.0 million and an increase in other noncurrent assets of ₱38.2 million.

Net cash used in investing activities was ₱105.2 million in the three months ended March 31, 2007, which consisted primarily of additions to property and equipment of ₱114.8 million to meet the continuing development and expansion of *Qtv* and *GMA Pinoy TV*, the construction of the GMA Network Center Annex and regional expansion projects, an increase in investments and advances of ₱2.1 million and an increase in other noncurrent assets of ₱3.0 million.

Financing Activities

Net cash used in financing activities was ₱764.9 million for 2004. This consisted primarily of payments of long-term debt of ₱525.1 million, payments of short-term notes of ₱408.4 million, cash dividends of ₱234.4 million and interest and financing charges paid of ₱126.3 million. This was partially offset by proceeds from availments of short-term notes of ₱529.2 million.

Net cash used in financing activities was ₱1,833.6 million for 2005. This consisted primarily of full-settlement of long-term debt of ₱524.6 million in February 28, 2005, nine months ahead of maturity, payments of short-term notes of ₱620.4 million and cash dividends of ₱1,159.6 million.

Net cash used in financing activities was ₱831.3 million for 2006. This consisted primarily of payments of short-term notes of ₱535.9 million and cash dividends of ₱1,089.5 million. This was partially offset by proceeds from availments of short-term notes of ₱836.4 million.

Net cash used in financing activities was ₱373.3 million for the three months ended March 31, 2007. This consisted primarily of payments of short-term notes of ₱266.4 million and cash dividends of approximately ₱100.0 million.

Capital Expenditures

The Company has made consolidated investments totaling approximately ₱1,869.6 million over the last three years to fund planned capital expenditures.

The Company's total incurred capital expenditures for the years ended December 31, 2004, 2005 and 2006 were ₱477.9 million, ₱869.9 million and ₱521.8 million, respectively. Major capital expenditures were for the establishment of the BAS system, consisting of hardware and software for program broadcasts, in 2004, the expansion of regional stations and establishment of *GMA Pinoy TV* and *Qtv* post-production facilities in 2005 and the construction of the GMA Kapuso Center, as well as the preliminary phase of the regional signal strengthening and upgrade project in 2006. For the years ended December 31, 2007 and 2008, the Company plans to spend ₱938 million and ₱950 million, respectively, on the completion of two new television studios, the comprehensive roll-out of the regional signal strengthening and upgrade project, the implementation of a media asset management system, maintenance expenditures and the build up of the Company's regional infrastructure, production and studio facilities, to enable it to increase its broadcast capabilities outside of Mega Manila. See "Use of Proceeds" on page 45 of this Prospectus.

The figures in the Company's capital expenditure plans are based on management's estimates and have not been appraised by an independent organization. In addition, the Company's capital expenditure plans are subject to a number of variables, including: possible cost overruns; receipt of critical governmental approvals including approvals of regulators; availability of financing on acceptable terms; changes in management's views of the desirability of current plans; and the identification of potential acquisitions, among others. There can be no assurance that the Company will execute its capital expenditure plans as contemplated or at or below estimated costs. See "Risk Factors — Risks relating to the Company and the Television Industry — The Company may not successfully implement its growth strategy" on page 34 of this Prospectus.

Dividend Distributions

Cash dividends paid to shareholders during the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2007 totaled ₱234.4 million, ₱1,159.6 million, ₱1,089.5 million and ₱99.97 million, respectively. Property dividends paid to shareholders in the year ended December 31, 2006 totaled ₱104.5 million. The Company's historical dividend payout reflects the growth and success of the Company. For more information, see the section entitled "Dividend Policy" on page 48 of this Prospectus.

Contractual Obligations, Including Long-term Debt

The following table sets out the Company's consolidated contractual and other obligations, excluding contingent liabilities, that were outstanding as at March 31, 2007 and the effect such obligations are expected to have on liquidity and cash flow in future periods:

	Payments Due By Period				
	Total	Within 1 year	1-3 years	3-5 years	After 5 years
			(₱ in millions)		
Short-term Obligations	441.8	441.8	—	—	—
Long-term Debt Obligations	—	—	—	—	—
Operating Lease Obligations	536.4	82.8	191.4	231.1	31.0
Unconditional Purchase Obligations(1)	135.2	135.2	—	—	—
Total	1,113.4	659.8	191.4	231.2	—

(1) Consists of open purchase orders as at March 31, 2007

Off-Balance Sheet Arrangements and Other Obligations

As at March 31, 2007, the Company was not a financial guarantor of obligations of any unconsolidated entity, and the Company was not a party to any off-balance sheet obligations, arrangements or obligations (including contingent obligations), and has no other relationships with unconsolidated entities or other persons that would have a material impact on the Company's operations or financial condition.

Seasonality

The Company's financial condition and results of operations are not materially affected by seasonality. Historically, the Company's first quarter revenue has been less than its revenue for each of the other three quarters principally due to a lag following fourth quarter holiday spending. In recent years, however, the Company's first quarter revenue has increased steadily and, in 2006, accounted for approximately 21% of its annual revenue.

Quantitative and Qualitative Disclosure about Financial Market Risk

The Company's exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates. From time to time the Company evaluates the feasibility of using derivative financial instruments, such as swap agreements, for hedging purposes. The Company does not purchase derivatives for speculative purposes.

Interest Rate Risk

From time to time in the past, the Company has had long-term debt obligations which bore interest at floating rates. As at March 31, 2007, the Company had no long-term debt and its exposure to interest rate risk derives primarily from the repricing of its short-term debt. The Company locks in its short-term debt for six months or longer, compared to the market standard of one month. In the year ended December 31, 2006 and the three months ended March 31, 2007, the weighted average interest rate on the Company's short-term debt was 8.49% and 7.12%, respectively.

Exchange Rate Risk

The Company's exposure to exchange rate risk derives primarily from capital expenditures and payables for goods and services in connection with international operations. As at March 31, 2007, the Company's aggregate foreign currency exposure was equivalent to approximately U.S.$1.3 million.

The Company has foreign exchange exposure primarily associated with fluctuations in the value of the peso against the U.S. dollar and other foreign currencies. A substantial majority of the Company's revenues are denominated in pesos, while certain of its expenses, including payables for goods and services and capital expenditures, are denominated in U.S. dollars or based on prices determined in U.S. dollars. Recently, the peso has strengthened against the U.S. dollar, resulting in less foreign exchange risk.

The Company limits risks relating to payables by purchasing forward contracts from time to time. The Company also has natural hedges against foreign currency risk in that its foreign currency obligations are offset by increasing foreign exchange revenues from international operations.

Changes In and Disagreements with Accountants on Accounting and Financial Disclosures

Since 1994, SyCip Gorres Velayo & Co. has served as the independent auditors of the Company to audit the Company's financial statements. The Company has not had any material disagreements on accounting matters or financial disclosure matters with SyCip Gorres Velayo & Co.

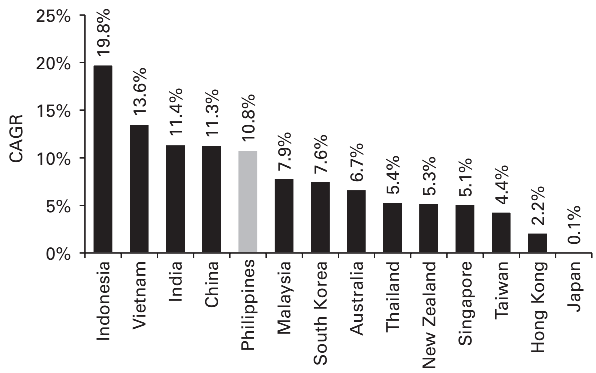
THE PHILIPPINE TELEVISION INDUSTRY

The information in this section has been derived from various government and private publications or obtained from communications with various Government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Underwriters or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

Philippine macro-economic development

The Philippines has maintained rapid and stable GDP growth over the last 10 years. According to ZenithOptimedia, nominal GDP had a CAGR over the past 10 years of 10.8%, which ranks it as the fifth-fastest growing economy in Asia.

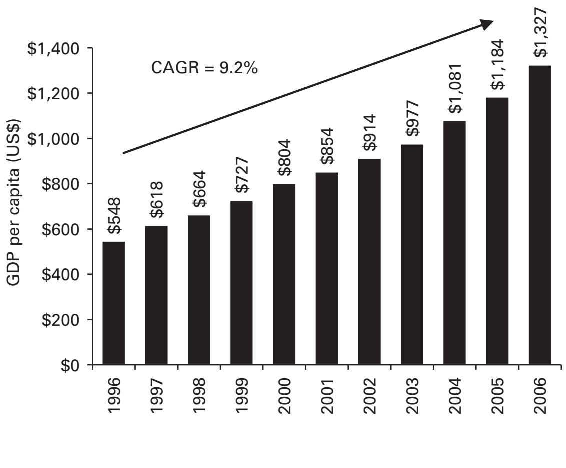
Historical GDP growth vs. Asian countries (1996 — 2006E CAGR)



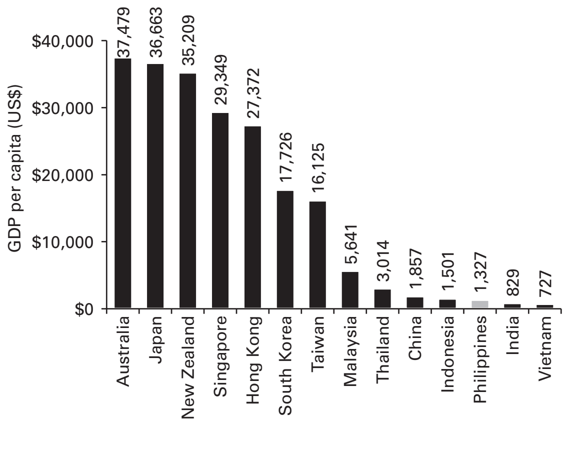
Note: Nominal GDP growth
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

Due to the economy's rapid growth, the GDP per capita of the Philippines also grew steadily from US$548 in 1996 to US$1,327 in 2006, in nominal terms. Relative to other Asian countries, the Philippine GDP per capita is still very low ranking in the bottom third of countries in the region.

Philippines GDP per capita



Philippines GDP per capita vs. Asian countries (2006E)

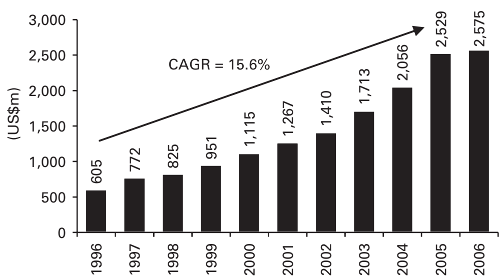


Note: Nominal GDP per capita
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

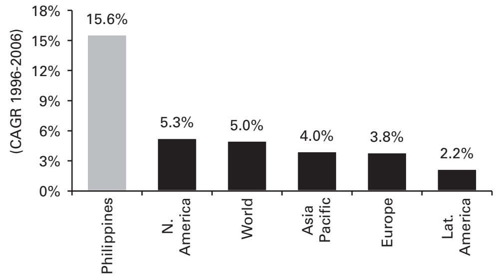
Philippines Advertising Market

According to ZenithOptimedia, total Philippines advertising expenditure, which includes advertising on television, radio, press, magazine and other media, grew steadily from US$605 million in 1996 to US$2,575 million in 2006, representing a CAGR of 15.6%, higher than the growth rates in regions such as North America, Europe, Asia and Latin America.

Philippine advertising expenditure



Global advertising expenditure growth comparisons (CAGR 1996 — 2006)

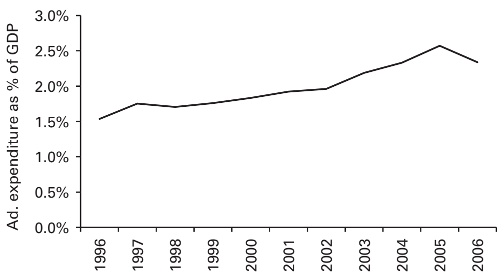


Note: Nominal advertising expenditure and growth

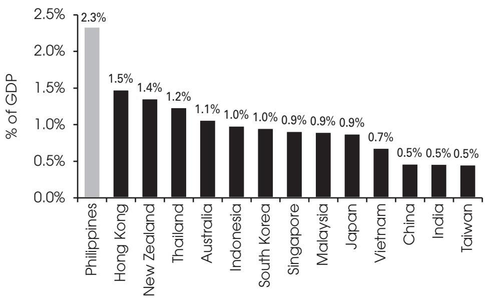
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

Since the 1997 Asian financial crisis, Philippine advertising expenditure as a percentage of GDP has remained stable, increasing slightly from 1.7% in 1998 to 2.3% in 2006. However, Philippine advertising per capita remains behind that of other Asian countries.

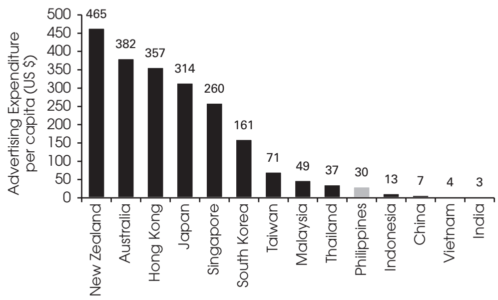
Stable advertising expenditure as % of GDP



Advertising expenditure as % of GDP (2006E)



Advertising expenditure per capita (2006E)



Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

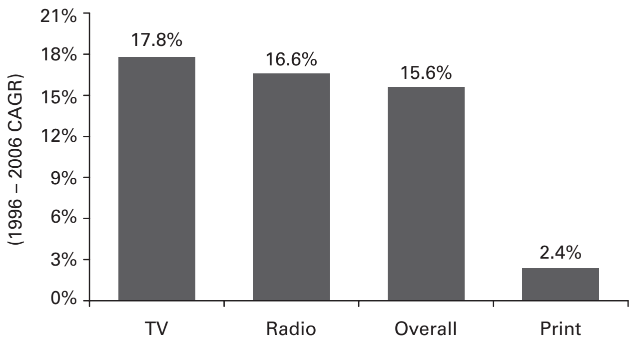
Advertising expenditure in the Philippines can potentially be influenced by certain events, such as elections. In 2004, the Presidential, Vice Presidential and Congressional elections positively impacted the overall advertising expenditure. AGB Phils. (now merged into AGBNMR Phils.) estimated political television advertising for 2004 to be approximately ₱1.6 billion. According to ZenithOptimedia, government/public advertising grew the fastest in 2004.

2006 saw a slow down in the rate of growth of advertising spend in the Philippines with expenditure increasing by 1.8% in 2006, in nominal terms, while the ratio of advertising expenditure as percentage of GDP dipped slightly to 2.3% from 2.6% in 2005. This was influenced by factors such as relatively high gasoline prices, increases in income taxes in the Philippines and general negative consumer outlook according to the quarterly Consumer Outlook published by the Department of Economic Statistics, as the outlook for the next 12 months indicated a negative score of 26.3 in the fourth quarter of 2005. However, more recent data on the quarterly Consumer Outlook indicates a positive forward outlook, as the outlook for the next 12 months indicates a positive score of 12.3 in the first quarter of 2007.

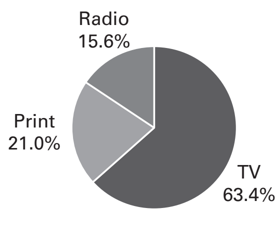
Television and radio advertising

Television has been and continues to be the preferred advertising medium in the Philippines. Television advertising grew at a CAGR of 17.8% between 1996 and 2006, faster than any other advertising medium and surpassing the advertising industry CAGR of 15.6% for the same period. Consequently, the share of television advertising expenditure in the Philippines rose from 63.4% in 1996 to 76.7% in 2006. Radio advertising expenditure as a percentage of total advertising expenditure increased from 15.6% in 1996 to 17.0% in 2006. Print advertising grew at a slower rate over the period, decreasing as a percentage of total advertising expenditure from 21.0% in 1996 to 6.2% in 2006.

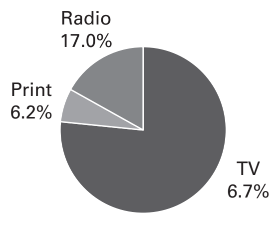
Advertising expenditure growth by medium



Share of advertising expenditure by medium (1996)

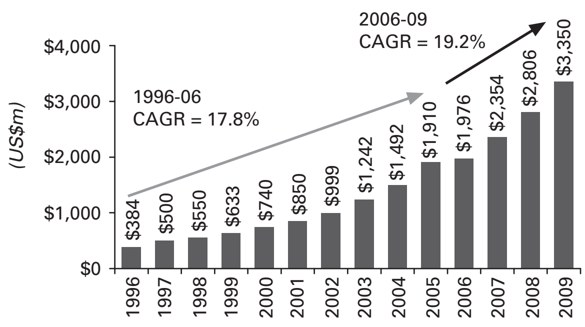


Share of advertising expenditure by medium (2006E)

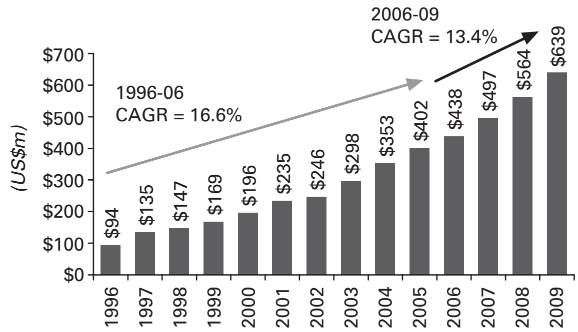


Note: Nominal advertising expenditure and growth
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

Philippine nominal TV advertising expenditure



Philippine nominal radio advertising expenditure



Note: Nominal advertising expenditure growth
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

Television and radio advertising expenditure as a percentage of total advertising in the Philippines is high as compared with other regions of the world, further demonstrating the dominance of television and radio in the Philippines market. Moreover, the Philippines television household penetration rate remains low as compared with Asian countries with similar GDP per capita, such as China and Indonesia (Philippines: US$1,166, Indonesia: US$1,315, China: US$1,408), growing from 9.8% in 1995 to 11.8% in 2005.

Share of adspend: Television (%)

	2001	2002	2003	2004	2005	2006	Average
Philippines	**67.1**	**70.8**	**72.5**	**72.6**	**75.5**	**76.7**	**72.5**
Lat. America	55.2	58.9	60.1	60.4	60.5	60.2	59.2
Asia Pacific	43.0	44.0	44.0	44.4	44.4	43.8	43.9
Global	36.2	37.0	37.1	37.8	37.5	37.5	37.2
N. America	33.6	34.3	33.8	34.3	33.2	33.3	33.7
West Europe	30.0	30.7	31.2	32.0	32.0	31.5	31.2

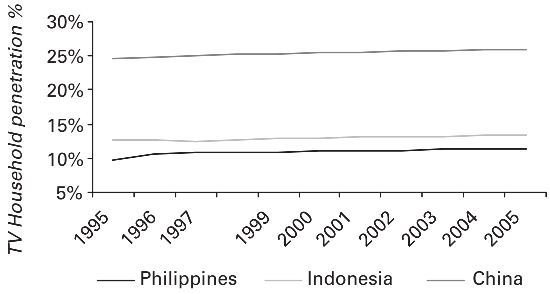
Note: Nominal advertising expenditure growth
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

Share of adspend: Radio (%)

	2001	2002	2003	2004	2005	2006	Average
Philippines	**18.5**	**17.5**	**17.4**	**17.2**	**15.9**	**17.0**	**17.2**
Lat. America	8.7	8.7	6.8	6.9	6.8	6.9	7.4
Asia Pacific	5.2	5.2	5.1	5.0	5.0	5.0	5.1
Global	8.7	8.9	8.8	8.7	8.5	8.3	8.6
N. America	12.8	13.0	12.9	12.6	12.4	12.0	12.7
West Europe	5.1	5.3	5.5	5.6	5.7	5.6	5.5

Note: Nominal advertising expenditure growth
Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

TV penetration trends of similar per capita GDP countries



Source: Advertising Expenditure Forecasts, December 2006, ZenithOptimedia

Philippine Broadcasting Industry

Demographics

Based on the last available census information in 2000, the Mega Manila region has the largest number of television-owning households in the Philippines. As the region is one of the more urbanized and modern areas of the Philippines, TV penetration and viewership is correspondingly higher.

Philippines Household Population distribution level (2000)

	No. of households	Urban TV Ownership	TV households
			('000)
Mega Manila	3,623	94%	3,406
Balance Luzon	1,775	84%	1,491
Urban Visayas	1,033	74%	764
Urban Mindanao	1,098	70%	769
Total	7,529	85%(1)	6,430

(1) Implied urban television ownership.
Source: NSO Census of Population and Housing

TV Ratings measurements

In the Philippines, "ratings" is defined as the percentage of households or persons viewing a station's programs out of the total TV households in the area being measured. Ratings are tracked via meters installed on television sets, which produces a continuous measurement of viewing activity within those households. Results are obtained daily by phone. Such TV ratings measurements are widely used by advertisers as a basis for determining advertising placement strategy and rates.

In 1994, Nielsen Media Research began providing ratings which measured television viewership in Metro Manila using "people meters" which record the channels selected by the viewers and provide statistical samplings of the viewing habits of Metro Manila households. The Nielsen Media Research Metro Manila ratings service classifies households by socio-economic classes ranging from A (highest) to E (lowest) based on household income, household facilities and nature of household ownership. The agency used offline peoplemeters with detachable modules for storage of viewing data and had a household sample size of 600. Geographical coverage for Nielsen Media Research included Metro Manila and parts of Bulacan, Cavite, Laguna, Rizal and Pampanga.

Beginning in July 2000, the Philippine TV Research Council awarded the Metro Manila industry ratings contract to AGB Phils. The Council expanded the coverage of this license to Mega Manila in 2001. AGB Phils. uses online peoplemeters to generate TV viewership data among its sample of panel homes. Such online peoplemeters employ GSM technology for data transmission and collection. AGB Phils. had a sample household size of 600 and covers Metro Manila and parts of Bulacan, Cavite, Laguna and Rizal.

Nielsen Media Research and AGB Phils. merged into AGBNMR Phils. in March 2005 and currently produce a single set of ratings for Mega Manila. The estimates are expressed in terms of the percentage of the total potential audience in the market viewing a station and of the station's percentage of the total potential audience actually watching television during the time-period measured. As a result of the merger of the two ratings agencies, there is a shift towards official program ratings from Mega Manila to a nationwide sampling. For AGBNMR Phils., current minimum household reporting samples are 400 in Mega Manila and 1,600 in total urban areas nationwide. Ratings in Metro Manila, Metro Cebu and Metro Davao are now also made available to subscribers, and AGBNMR Phils. expects to offer ratings in the key cities of Dagupan, Bacolod and Cagayan de Oro in the second half of 2007.

It is expected that in the first half of 2007, a new ratings service, TNS Phils., will be launched. TNS Phils. will also use online peoplemeters and will offer coverage of urban areas in the Philippines, with a sample size of 1,200 total urban households. Both the Company and ABS-CBN have contracted with TNS Phils. to provide ratings services.

Key industry characteristics

- Local content programming: Filipino viewers have a general preference towards television shows with local content. Of the top 30 highest rated TV programs in August 2005, 24 were programs of such nature. The only non-local television program was a Taiwanese youth drama. Such preference for local content has resulted in an increased focus on television programming that are more relevant to specific localities.

- Focus on programming concepts: Successful networks typically have strong programming teams that regularly obtain feedback in order to identify changing trends. This ensures that its programming concepts stay relevant to their viewers. Feedback mechanisms for networks include ratings performance, focus and discussion groups. A strong programming concept leverages sound production treatment and the relevant casting of talents in order to attain strong viewership.

- Cultivation of Talents: Given the preference towards local content programming, viewers naturally identify with the talents used for such programs. This highlights the importance of a pool of talents that a network can nurture, train and develop in order to tap into for the local content focused programs. Networks utilize various mechanisms to cultivate its talents. Such mechanisms include providing workshops and training, consistent media exposure through casting of aired and live programs, in accordance with a talent's career path as determined through a consultative approach between the talents and the networks.

- Impact of ratings: Ratings are key indicators for advertisers in gauging the popularity of a network's programs for placements particularly in the prime time advertisement slots. Prime time slots in the Philippines are typically between 6:00 p.m. and 10:30 p.m. Strong ratings positively impact the top line revenue of networks.

- Value for money to advertisers: Advertisers are constantly looking for better return, coverage, viewership and pricing. They are increasingly looking beyond regular TV spot placements in favor of more creative exposure of their products and services.

- Relationship with advertisers: Maintaining strong relationships with advertisers ensures repeat media placements. Key characteristics of a strong sales and marketing team include quality client servicing efforts via regular dialogue, ability to tailor the relevant incentive schemes for clients that induces repeat media placements. Such qualities are typically recognized through awards presented by selected advertising agencies, such as the Media Advertising Executive of the Year award, presented by Universal McCaan, and the Top Ten Outstanding Advertising Executives of the Year, presented by Starcom Philippines.

DESCRIPTION OF THE PDR ISSUER

Description of the Business

GHI, the PDR Issuer, was incorporated on February 15, 2006. GHI has no subsidiaries. It is not involved in any legal proceedings. GHI's majority shareholders have agreed to guarantee payment of the PDR Issuer's operating expenses in the event that the latter is unable to pay due to insufficiency of funds arising out of the failure of the Company to declare and pay sufficient cash dividends necessary to pay such operating expenses.

GHI will not engage in any other business or purpose except in relation to the issuance of the PDRs relating to the Shares for as long as the PDRs are outstanding. GHI has undertaken to perform the obligations under the PDRs and the acquisition and holding of the Underlying Shares, which includes maintaining the listing with the PSE, and maintaining its status as a Philippine Person for as long Philippine law prohibits ownership of the Issuer's shares by non-Philippine persons.

Directors and Officers

The Board of Directors and the officers of GHI are as follows:

Name	Nationality	Position	Age
Felipe L. Gozon	Filipino	Chairman	67
Joel Marcelo G. Jimenez	Filipino	Vice-Chairman	42
Gilberto R. Duavit, Jr.	Filipino	President	43
Felipe S. Yalong	Filipino	Treasurer	50
Manuel P. Quiogue	Filipino	Director	65
Anna-Teresa M. Gozon-Abrogar	Filipino	Corporate Secretary	35

Biographical information on each member of the Board of Directors and each officer may be found under "Management and Certain Shareholders", below.

Manuel P. Quiogue

Mr. Quiogue obtained a bachelor's degree in economics from the Ateneo de Manila University. He is currently the President and COO of GMA Marketing. Immediately prior to joining GMA Marketing, Mr. Quiogue was the Vice President for Sales and Marketing of ABS-CBN, where he helped to launch that network's English-language UHF channel, Studio 23. Mr. Quiogue also served as the head of the ABS-CBN Narrowcast Group. Prior to joining ABS-CBN, Mr. Quiogue served as an account manager and later President and COO of JWT Manila, the Philippine branch of the global advertising firm JWT, where his clients included Unilever, Coca-Cola and Procter & Gamble. Mr. Quiogue also has experience working on the client side of the advertising business, as a marketing manager for Unilever and a marketing director for Coca-Cola. He is currently a member of the Board of the Philippine Center for Population and Development, and a member of the Board of Trustees for each of the Advertising Foundation of the Philippines, the Philippine Association of National Advertisers and the Southeast Asia Foundation for Children's Television.

Capitalization of the Issuer

GHI has an authorized capital stock of ₱100,000 divided into 10,000 shares with a par value of ₱10 each. The following are the shareholders of GHI as at the date hereof:

Shareholders	Number of Shares	Percentage
Felipe L. Gozon	3,330	33.30
Gilberto R. Duavit, Jr.	3,330	33.30
Joel Marcelo G. Jimenez	3,330	33.30
Felipe S. Yalong	5	0.05
Manuel P. Quiogue	5	0.05
	10,000	100

Plan of Operations

Any cash dividends or other cash distributions distributed in respect of Shares received by the PDR Issuer (or the Pledge Trustee on its behalf) shall be applied toward the operating expenses then due (including but not limited to applicable taxes, fees and maintenance costs charged by the Philippine Stock Exchange) of the PDR Issuer (the "Operating Expenses") for the current and preceding year (as certified by an independent auditor). A further amount equal to the operating expenses in the preceding year (as certified by an independent auditor) (the "Operating Fund") shall be set aside to meet operating or other expenses for the succeeding year. Any amount in excess of the aggregate of the Operating Expenses paid and the Operating Fund for such period (as certified by the independent auditor of the PDR Issuer) shall be distributed to Holders pro rata on the first Business Day after such cash dividends are received by the PDR Issuer.

Operating Expenses are expected to include registration fees and listing fees for additional PDRs created, Philippine Stock Exchange charges, fees for the PDR Agent and the Pledge Trustee, auditors' fees, directors' fees, legal fees and administrative expenses in connection with, among other things, distribution and publication of notices to Holders. The PDR Issuer estimates that Operating Expenses may amount to ₱2 million per year. See "Terms and Conditions of the PDRs — Cash Dividends and Other Cash Distributions" on page 153 of this Prospectus.

BUSINESS

Overview

GMA Network, Inc. is the leading free-to-air media broadcasting company in the Philippines in terms of ratings and net income. Headquartered in Quezon City, the Company provides a variety of programs to an estimated television audience of approximately 8.1 million television-owning households in the Philippines, based on 2000 data from the National Statistics Office. The Company also broadcasts to paying subscribers in the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa. The Company's television programming includes fantasy programs, dramas, soap operas *(telenovelas)*, dubbed foreign serials, entertainment news, talk shows, reality programs, news and public affairs shows, documentaries, game shows, variety shows, musicals, sitcoms and children's shows. The Company broadcasts extensively throughout the Philippines, programming between 21 and 22 hours a day on Channel 7 in Mega Manila and through 45 other television stations nationwide. The Company believes that its broadcasts currently reach more than 90% of Philippine television-owning households, ranking the Company among the leading television station operators in terms of broadcast coverage. The Company also produces and broadcasts radio programs in 16 cities and one municipality across the Philippines on its wholly-owned operating network of 24 radio stations and one minority-owned radio station.

As at March 31, 2007, the Company's television network was the highest rated television network in Mega Manila, which is the largest television market in the Philippines. According to AGBNMR Phils., for the three months ended March 31, 2007, the Company's Total Day household ratings and audience share in Mega Manila were 17.3% and 42.1%, respectively, which were higher than its nearest competitor, ABS-CBN, whose Total Day household ratings and audience share were 14.7% and 35.7%, respectively, in the same time period. As a result of the increase in advertising spending on the Company's network, the Company's financial results have improved significantly in the past three years. For the year ended December 31, 2006, the Company recorded net revenues of ₱9,187.9 million, net income of ₱1,962.5 million and EBITDA of ₱4,043.3 million representing CAGRs of 19%, 14% and 17%, respectively, since December 31, 2004. For the three months ended March 31, 2007, the Company recorded net revenues of ₱2,152.2 million, net income of ₱440.7 million and EBITDA of ₱936.0 million, compared to net revenues of ₱1,952.8 million, net income of ₱350.8 million and EBITDA of ₱781.6 million for the same period in 2006.

The Company believes its high household ratings and audience shares are due to the consistently superior quality, relevance and originality of its productions, its highly rated and credible news and public affairs programs, its highly creative talent pool and its close connection with its audience. Based on data from AGBNMR Phils., for the year ended December 31, 2006, the Company aired all of the top 10 regular television programs and 19 out of the top 30 regular television programs and for the three months ended March 31, 2007, the Company aired 17 out of the top 30 regular television programs in Mega Manila in terms of household ratings, compared to only 16 out of the top 30 in 2004. These household ratings reflect overall or Total Day ratings, and are for regular programs only and exclude television specials. Of these 19 programs aired in the year ended December 31, 2006, 14 were the Company's original productions featuring its on-camera talents. The Company's original productions include several highly-rated broadcast series, such as *Asian Treasures, Super Twins* and *Magpakailanman*, and news and public affairs programs such as *24 Oras* and *Imbestigador*. The broadcasting industry has consistently recognized the Company's programming and talent pool through awards received at events in the Philippines and internationally. The Company's corporate mantra, "Kapuso", meaning "One in heart with the Filipino people", guides its programming choices and allows viewers to feel closely connected to the network.

An important objective of the Company's business strategy has been to broaden its revenue base. Since 2005, the Company has identified additional revenue streams by broadcasting programming on an additional channel, *Qtv* and through the Company's subscription-based international channel, *GMA Pinoy TV*. *Qtv* was developed in partnership with Zoe Broadcasting Network, Inc., and is the first television station in the Philippines specifically tailored primarily to middle- to upper-class female viewers, a consumer group particularly attractive to advertisers and who, the Company believes, constitute the majority of television viewers. As at March 31, 2007, *Qtv* was the third-highest rated station in Mega Manila, according AGBNMR Phils. The Company's television programs are also broadcast outside the Philippines on its subscription-based international channel, *GMA Pinoy TV*, as well as distributed outside the Philippines through GWI, a wholly-owned subsidiary of the Company. *GMA Pinoy TV* was first aired in April 2005 and is currently shown in the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa. As at March 31, 2007, *GMA Pinoy TV* had approximately 136,000 subscribers. A variety of the Company's original productions are also distributed through syndication sales to foreign television stations in Canada, Malaysia, Cambodia, Indonesia and the United States.

The Company's provincial radio stations are managed by RGMA, an affiliate of the Company, which provides programming and administrative services for the Company's radio stations.

Established in 1991, the GMA Kapuso Foundation, Inc. is a non-profit corporation that is engaged in various projects that benefit underprivileged families and children, prisoners and ex-prisoners and children of GMA employees. Bisig Bayan, one of the Foundation's public service arms, provides relief assistance to families displaced during calamities and natural disasters. It also assists needy families and individuals by subsidizing education, costly treatments, medicines, burial of relatives and provision of legal aid.

The Company's principal shareholders are the Duavit, Gozon and Jimenez Families. Following the Combined Offer, the Duavit Family, the Gozon Family and the Jimenez Family will hold 28.35%, 24.21% and 28.29%, respectively, of the Company's enlarged share capital, including the Preferred Shares, assuming that the Over-allotment Option is not exercised and without giving effect to the ESOP.

The Company's head office is located at the GMA Network Center, EDSA corner Timog Avenue, Diliman, Quezon City, Metro Manila. Its corporate website is www.igma.tv. The information on the website is not incorporated by reference into this Prospectus.

Competitive Strengths

The Company believes that it is uniquely positioned to provide innovative programming and benefit from higher ratings, audience and advertising shares due to the following competitive advantages:

Superior Programming

The Company believes its focus on superior programming and original program ideas has resulted in the Company achieving higher household ratings and audience shares than any other broadcasting company in the Philippines. The Company believes its superior programming is based on the following:

- *Highly-rated and Credible News Coverage.* The Company's news programs provide well-balanced, in-depth and groundbreaking news coverage of all major news events in the Philippines. The Company's news and public affairs programs have won a number of awards, including the prestigious George Foster Peabody Award for excellence in broadcast journalism. The Company's news presenters, including Mike Enriquez, Mel Tiangco and Jessica Soho, are well-known and well-respected public figures in the Philippines.

- *Innovative Programming.* The Company believes that its programming is innovative, well-researched and in tune with the interests of its primary audience. The Company pioneered the production and programming of the fantasy and reality genres on Philippine television, resulting in fantasy programs such as *Asian Treasures* and *Super Twins*, and reality programs such as *Pinoy Pop Superstar* and *Starstruck*. These programs have earned high ratings in their respective genres. Through a dedicated research team, the Company leverages tools such as ratings, focus groups and interest groups to identify and review current viewership trends and preferences. A dedicated programming committee assesses feedback and recommends the launch, continuation or termination of programs. This enables the Company to assess programming strategically so that relevant programs are aired at the most appropriate time to target the strongest viewership. For example, in recognition of viewers' appreciation of Asian dramas, the Company airs Taiwanese and Korean dramas that are top-rated shows in their home countries. The Company constantly seeks to introduce innovative programming formats to increase viewership.

- *Interactive Shows.* The Company has developed interactive shows which allow the viewing audience to participate in the program. One of the Company's first and most successful interactive shows is *Starstruck*, the Philippines' first reality-based talent search program which allowed viewers to select the surviving aspirants. Another program, *Emergency*, allows viewers to present their concerns and requests to the show through SMS texting. In addition, through a majority of the Company's shows, including *Asian Treasures* and *Jumong*, viewers can participate in polls and win prizes through SMS texting. Through the *S-Files* hotline, viewers can receive the latest updates on their favorite celebrities on the show and can call in during the show to ask questions of celebrities as they are being interviewed.

Leading Television Broadcaster in Mega Manila

The leadership of the Company's network in the Mega Manila television market in terms of household ratings makes it the leading broadcasting company in the Philippines. Mega Manila is the largest television market in the Philippines, with an estimated viewing audience of 3.5 million television-owning households, according to ABGNMR Phils. As at December 31, 2003, the Company surpassed its closest competitor, ABS-CBN, in household ratings and audience share in the Mega Manila market, and as at March 31, 2007, led ABS-CBN in these categories by 2.6% and 6.4%, respectively, according to AGBNMR Phils. Due to its ratings leadership in Mega Manila, the Company has been able to raise its advertising rates and increase its minute loading.

Strong Relationships with Advertisers and Advertising Agencies

GMA Marketing, one of the Company's subsidiaries, maintains relationships with and delivers services to advertisers and advertising agencies, providing traditional commercial spots and non-traditional media packages, promotional programs and materials and creative products. For example, GMA Marketing assists advertisers in producing commercial campaigns. Through dedicated sales forces specializing in entertainment programs, news and public affairs programs, radio and *Qtv*, GMA Marketing is in constant communication with advertisers to maintain and develop relationships. Sales executives have received numerous awards from reputable organizations recognizing their achievements as the industry's top sales executives. As a result of its strong relationships with advertisers and advertising agencies, the Company is able to better address the needs of advertisers, manage advertising schedules and ensure repeat placements.

Extensive Reach and Market Share

The Company believes that its broadcasts currently reach more than 90% of Philippine television-owning households, ranking the Company among the leading television station operators in terms of broadcast coverage. The Company currently broadcasts programming between 21 and 22 hours a day on Channel 7 in Mega Manila and through 45 other television stations throughout the Philippines. While having a strong market share in Mega Manila is important to the Company, advertisers generally prefer to reach audiences in all areas of the Philippines as they can save costs and reach all areas of the nation by placing advertisements on one network. The Company's leadership in Mega Manila and nationwide broadcasting capability appeals to these advertisers.

Deep Talent Pool

The Company believes it has developed a deep talent pool by working to discover and develop its on- and off-air talents. As at March 31, 2007, the Company had approximately 2,621 talents under contract, consisting of on-air performers and presenters, and behind-the-scenes writers, directors and producers. The Company has successfully developed a number of its on-air talents into stars by showcasing them in popular television programs. The Company's GMAAC plays a strong role in recruiting, identifying and retaining emerging talents and developing and promoting existing talents, in particular, on-air talents including performers and presenters. Building on the Company's strong program concepts, GMAAC focuses on the optimal casting of its talents, ensuring proper exposure, training, career guidance and opportunities in programming, in the fields of television, movies and music recording. The Company's internal development of talents helps to keep talent costs low.

Business Strategies

The Company aspires to strengthen its position as the leading broadcaster in the Philippines through revenue and audience growth and the continued implementation of effective cost controls. The principal components of this strategy are:

Maintain Top Rating

The Company intends to maintain its top-ranking in Total Day television ratings in Mega Manila, which it first achieved in December 2003. Beginning in September 2004, the Company took the lead in ratings across all time blocks, including in the Prime Time block consisting of programming generally aired between 6:00 p.m. and 10:30 p.m. The Company acquired its top-ranked position through continuous improvement of its programs and the introduction of innovative shows that appeal to a broad range of viewers. Successful programming of broadcast television requires constant refinement to match available programming and the changing tastes of the viewing audience. The Company intends to continuously produce credible news, public affairs and quality entertainment programs and refine its programming mix to attract and retain the audiences desired by advertisers and to increase profitability.

Achieve Wider Audience Reach through Reprogramming and Development of Qtv

The Company intends to reach out to a wider range of viewers through the reprogramming and development of *Qtv*, the first Philippine channel programmed primarily for middle- to upper-class women, a consumer group particularly attractive to advertisers. The Company believes that female viewers constitute the majority of television viewers. Specifically, the Company intends to reprogram *Qtv* to target viewers who are not current or regular viewers of Channel 7 programming. As at March 31, 2007, *Qtv* was the third ranked broadcasting channel in the Mega Manila, in terms of Total Day household ratings. The Company plans to retain *Qtv's* current audience and attract new viewers by leveraging the Company's existing expertise in entertainment, news and public affairs programming and the star appeal of the Company's current stable of talents. By targeting a viewer demographic that is attractive to advertisers, and by achieving strong ratings, the Company hopes to increase its revenues by increasing the available airtime it can sell to advertisers.

Improve and Expand Regional Coverage

The Company plans to increase its appeal to advertisers by improving the clarity of its signal and the reach of its stations in cities outside of Mega Manila through the implementation of its Regional Expansion Project, as described herein. The Company believes regional expansion will prepare the Company to meet the demands of advertisers who are increasing their presence in those regions outside of Mega Manila with large numbers of television-owning households. The Company plans to increase its regional coverage and target audiences by dialect spoken, rather than by geographical location. This strategy allows the Company to capture untapped audiences, increase ratings and consequently increase local advertiser interest. The Company has allocated ₱195 million to the Regional Expansion Project in 2007. As part of the Project, the Company intends to upgrade and enhance studio facilities in Cebu, Davao and Iloilo, including constructing new studios in Dagupan and Naga. In early 2007, the Company completed the upgrade of a transmitter installation in Mt. Sto. Tomas, Benguet. In addition, the Company plans to upgrade and strengthen major transmitter installations such as those in Batangas, Naga, Mt. Kitanglad and General Santos in order to further extend the Company's broadcast coverage. Further, the Company plans to construct two new relay stations, one in Mt. Amuyao, Mountain Province, and the other in Cagayan de Oro City.

Expand International Audience

Recognizing the increasing size of the overseas Filipino market, the Company intends to expand its international audience by entering into arrangements with foreign carriers and networks to broadcast its programs internationally. The Company plans to establish global exposure and capitalize on the large population of overseas Filipinos through *GMA Pinoy TV*, the Company's first international channel, and through a second international channel to be launched in 2007. The Company has entered into carriage agreements in the United States with Comcast, the largest U.S. pay television operator and DirecTV, the largest U.S. DTH operator. *GMA Pinoy TV* is also carried in the United States by Time Warner Cable, Cox Communications, Wave Broadband and San Bruno Cable. The Company also has agreements for the distribution of *GMA Pinoy TV* in Japan, Guam, Saipan and Papua New Guinea, as well as 16 countries in the Middle East and 11 countries in North Africa. In preparation for the Company's international broadcasting, the Company invested in a new BAS to produce programming for its international channels and tailor-made programs. Among the programs produced specifically for its international broadcasts, are Review Philippines, a weekly news recap/public affairs program anchored by Mike Enriquez, one of the Philippines' most credible news presenters and Hot Seat, a talk show dedicated to discussing current affairs in the Philippines, hosted by Jessica Soho, an award-winning broadcast journalist.

Control Costs to Increase Profitability

The Company believes that controlling costs is an important strategy for increasing its profitability. To minimize the cost of renting vehicles and equipment for its production of programs, the Company purchased broadcast vans, an audio van, lighting grip trucks, news gathering vans and other production equipment. The Company will also manage increases in talent fees through greater reliance on internally-managed talents. The Company is currently constructing the GMA Network Center Annex, and believes that, when operational, the facilities in its new GMA Network Center Annex will allow it to control costs further by centralizing all aspects of production in one building and eliminating leasing expenses for additional studio space, in addition to improving production values for the Company's programs.

Diversification into Media-Related Businesses

The Company intends to diversify its revenue streams, support its existing core operations and provide support to its talents by diversifying into media-related businesses. The Company has diversified and invested in allied and related business such as:

- *GMA New Media.* The Company is venturing beyond television by providing value-added services and applications for mobile phones, the Internet and digital television, including downloads of ringtones, television content, and information services relating to GMA artists. GMA New Media, in collaboration with the Company's broadcasting initiatives, also provides television audiences with interactive viewership. For example, for selected programs, television audiences are able to take part in contests or live polls concurrently broadcasted by sending their responses via SMS. Through a joint-venture with Summit Media, a major magazine publisher in the Philippines, GMA New Media launched Pep.ph, the Philippines Entertainment Portal, the first and only web portal in the Philippines dedicated to entertainment news. In early 2007, GMA New Media also launched the GMANews.tv website, the official website for GMA News and Public Affairs.

- *GMA Records.* In 2004, the Company re-opened its music recording label, GMA Records, which operates through its wholly-owned subsidiary, RGMA Marketing and Productions, Inc. Since re-opening its operations, GMA Records has released 28 audio albums by 16 contract artists with eight new albums scheduled for release in 2007. The Company intends to produce a majority of its future albums using artists within the pool of musical talent available in the GMA network.

- *GMA Films.* The Company resumed its movie production in late 2004. In 2005, GMA Films produced *Let the Love Begin* and *Lovestruck*, starring the Company's young and popular talents, which grossed approximately ₱110 million and ₱42 million, respectively, at the box office. GMA Films also co-produced *Mulawin (the Movie)*, the only Rated A movie, the highest category rating for quality in films by the Film Development Council of the Philippines, during the 2005 Metro Manila Film Festival. In 2006, GMA Films released three movies, including *Moments of Love, I Will Always Love You and Till I Met You*. GMA Films was the sole producer of Moments of Love, which was a finalist at the 2007 New York Festivals International Film and Video Awards. In early 2007, GMA Films released *The Promise*, and plans to release two more films later in the year. GMA Records and GMA Films afford the Company's talents opportunities to supplement their income and gain more exposure while remaining a part the Company's business. Providing these opportunities to the talents also engenders their greater loyalty to the Company.

History

The Company's key historical milestones are as follows:

- On March 1, 1950, the Company commenced operations when American war correspondent Robert Stewart (also known as *Uncle Bob*) sent the first radio transmission through AM airwaves via his station, DZBB.

- In 1955, the Company launches its first music station, DZXX.

- On October 29, 1961, the Stewarts started Republic Broadcasting System ("RBS") Channel 7.

- In 1974, Gilberto M. Duavit, Menardo R. Jimenez and Felipe L. Gozon took control of the Company and changed the Company's name from RBS to Greater Manila Area ("GMA") Radio-Television Arts.

- In 1987, the Company opened its high-end live studio at Broadway Centrum, boosting its local programming, and inaugurated its 777-foot *Tower of Power*, which in 1988 was the tallest man-made structure in the Philippines.

- On April 30, 1992, the Company launched the Rainbow Satellite, which allowed it to increase its broadcast reach by sending its signals simultaneously to 33 relay stations across the Philippines and to the neighboring Southeast Asian countries.

- In 1995, the Company ventured into UHF through the launch of Citynet 27. In the same year, Alta Productions and RGMA were incorporated.

- In 1996, the Company adopted "GMA Network, Inc." as its new name and the acronym was changed to *Global Media Arts* as the Company evolved into a conglomerate of companies engaged in movie making, sets and props construction, film syndication, music recording, new media, post production services and marketing.

- In 2000, the Company received the prestigious George Foster Peabody award for its news broadcasting.

- In 2001, the Company and the Philippine Daily Inquirer formed a joint venture to create INQ7.net, an online, multimedia news portal.

- In 2004, the Company became the leading network in the Philippines in terms of television ratings for all time segments.

- In August 2005, the Company launched its subscription-based international channel, *GMA Pinoy TV* in the United States. The Company's programs can now be seen in Japan, Guam, Malaysia and the Middle East and across the United States through satellite and cable systems.

- In November 2005, the Company launched *Qtv*, a free-to-air television channel with programming specifically designed for middle- to upper-class women. The Company signed a co-production and blocktime agreement with Zoe Broadcasting Network, Inc. which enables the Company to provide the programs for *Qtv*.

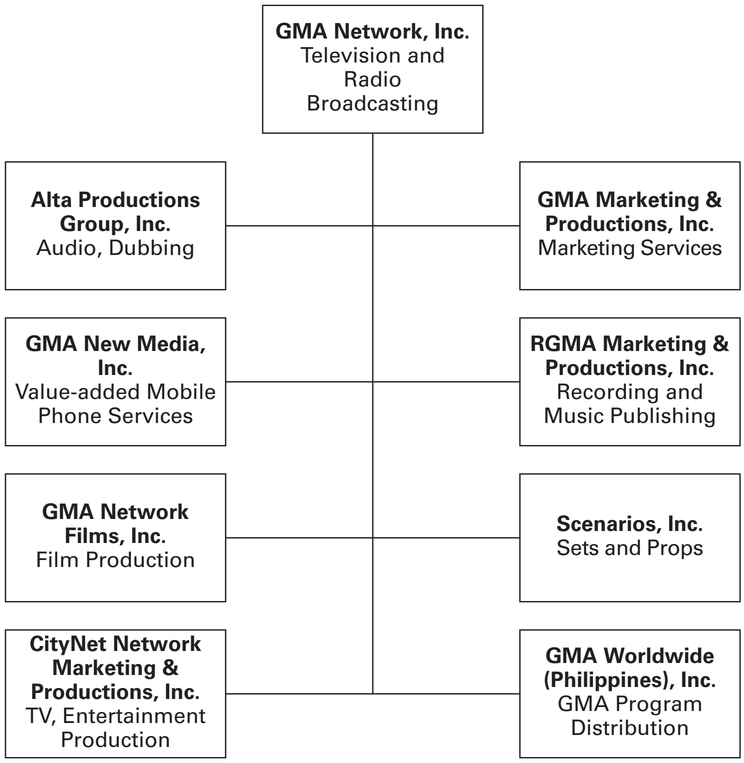
- In 2006, the Company commenced construction of the GMA Network Center Annex Project, a modern television studio facility with a gross floor area of 18,404 square meters, designed to house two television studios and studio support facilities.

- In early 2007, the Company launched a news-based website, GMAnews.tv, in partnership with INQ7 Interactive, Inc., to make GMA news broadcasting and content available on the Internet.

Over the years, the Company has maintained its premier position as the Philippines' most awarded network as it received a number of awards and citations locally and internationally. Among other awards, the Company was ranked among Asia's leading companies in the Far Eastern Economic Review 200 survey for three consecutive years from 2002 to 2004, and was recognized in 2003 by the House of Representatives of the Philippines through Resolution No. 787, for raising the standards of the Philippine broadcasting industry by becoming the first Philippine entity to receive the George Foster Peabody Award. At the 2005 *Asian Television Awards*, the Company was named the Terrestrial Channel of the Year.

Organization

The following chart shows the Company's organizational structure and its principal wholly-owned subsidiaries:



Nature of Operations

The Company's primary business activity is the operation of free-to-air terrestrial television stations and radio stations and the production of programming for broadcasting on those stations. The Company is also engaged in providing other new media services. The majority of the Company's revenues are derived from advertising revenues related to television broadcasting.

Television Business

Television Stations

The Company operates its television business in the Philippines under a 25-year Congressional television broadcasting franchise last renewed on March 20, 1992 through Republic Act 7252. The Congressional franchise allows the Company to operate radio and television facilities in the Philippines. As at March 31, 2007, the Company had 45 wholly-owned television stations and one affiliate which broadcast the GMA network to an estimated potential audience of approximately 8.1 million television-owning households in the Philippines, based on 2000 data from the National Statistics Office. The Company believes that its broadcasts currently reach more than 90% of Philippine television-owning households, ranking the Company among the leading television station operators in terms of broadcast coverage.

Of the Company's wholly-owned television stations, 21 are located in Luzon, including GMA-7 in Metro Manila, 12 are located in the Visayas and 12 are located in Mindanao. Of these television stations, the Company has originating stations in the cities of Manila (Luzon), Cebu, Iloilo (Visayas) and Davao (Mindanao) with the remainder of the stations in the provinces serving as relay stations. Originating stations have local play-out and programming capabilities, which allow them to produce and broadcast their own programs and advertising locally. These stations broadcast local news during the week and certain local entertainment programs in the local dialects on weekends to supplement the regular GMA broadcast. Relay stations re-transmit broadcasts from originating stations in an essentially unaltered format. The Company has one affiliate television station located in Butuan City in Mindanao. The Company's agreement with this affiliate is renewable on an annual basis. Pursuant to this agreement, the affiliate station, which is not owned by the Company, is contracted to re-broadcast the Company's originating signals provided by satellite during specified time blocks for negotiated airtime fees.

The following map shows the locations of the Company's television stations as at March 31, 2007.

__Television Programs and Programming__

The Company's television network produces or acquires, and distributes a comprehensive schedule of programming to its television stations and affiliates in the Philippines, including *Qtv*, as well as through syndication sales and its subscription-based international channel, *GMA Pinoy TV*. The Company's programs are broadcast primarily in Filipino and also in other local languages and dialects. The Company does not produce any English language programs. The Company's television programming includes fantasy programs, dramas, soap operas *(telenovelas)*, dubbed foreign serials, entertainment news, talk shows, reality programs, news and public affairs shows, documentaries, game shows, variety shows, musicals, sitcoms and children's shows. The Company's main sources of programming, in the order of the amount of television airtime revenues received from each, are:

- GMA original productions are programs which include fantasy series such as *Asian Treasures* and *Super Twins*; dramas such as *Magpakailanman*; reality shows such as *Pinoy Pop Superstar* and *Starstruck*; news and public affairs shows such as *Kay Susan Tayo, 24 Oras, Imbestigador, Saksi, Emergency, Kapuso Mo Jessica Soho* and *I-Witness* variety shows such as *Bubble Gang*, Mel & Joey, *Nuts Entertainment* and *SOP* and showbiz talk shows such as *S-Files* and *Startalk*. During the year ended December 31, 2006, revenues from original productions contributed approximately 79% of total television airtime revenues;

- Syndicated/acquired shows are programs for which the Company purchases broadcast rights and which are principally produced by foreign companies in the United States and in Asian countries, such as Korea, Taiwan and Japan. Such programs include the Korean and Taiwanese dramas, *Jumong, Jewel in the Palace, My Name is Kim Sam Soon* and *Frog Prince*, as well as Japanese Anime such as *Ghostfighter* and *Dragonball Z*. During the year ended December 31, 2006, revenues from syndicated/acquired productions contributed approximately 18% of total television airtime revenues;

- Co-produced shows are programs which are produced by the Company together with independent producers with whom resulting revenues are shared. In these arrangements, the Company typically provides the airtime and marketing of the show. The co-producer pays for all costs of production. Such shows include *Daddy Di Do Du* and *Daisy Siete*. During the year ended December 31, 2006, revenues from co-produced shows contributed 2.0% of total television airtime revenues; and

- Blocktime shows are programs for which an independent producer purchases a block of airtime from the Company and which are produced and/or financed by the blocktime purchaser. Such shows include *Eat Bulaga* and *Maynila*. During the year ended December 31, 2006, revenues from blocktime shows contributed 1.0% of total television airtime revenues.

The Company's original productions constitute the majority of the programming aired on its television network. Currently, the Company produces most of the programs shown during Prime Time. To complement its originally-produced programming, the Company also acquires high quality non-network programs from various program suppliers through co-production or blocktime agreements or by acquiring first-run syndicated programs depending on the Company's programming needs or cost and revenue considerations. The Company's agreements for co-produced, blocktime or other acquired programming have terms ranging from a few months to five years with payments generally made over the same term on a cash basis. The Company has a library of movies which it owns or to which it has broadcast rights, including movies produced by GMA Films for a certain number of runs and for terms ranging from two years to perpetuity.

The Company's Program Committee regularly reviews its programming line-up and decides which programs to develop, air and/or cancel. These decisions are based on a combination of factors, including feedback from focus groups and ratings agencies and the programs' ability to generate income. The Program Committee is composed of members of the Company's senior management who have extensive experience in television broadcasting. The Company's program managers for each of the principal program genres are responsible for developing program concepts for specific timeslots to achieve ratings and income targets.

The Company's program schedule is divided into Morning, Afternoon, Prime Time and Late Night. Prime Time refers to the hours of television broadcast during which the number of television viewers is the highest and is generally classified by the television industry as between the hours of 6:00 p.m. and 10:30 p.m., although this varies depending on the market. Due to the high popularity of certain of its programs, for the purposes of setting its advertising rates, the Company is able to include in its Prime Time block some programs whose run times are outside of the traditional industry Prime Time period. The effect of this practice is to extend the Company's Prime Time block to between the hours of 5:30 p.m. and 11:00 p.m. on certain days of the week. The majority of the programs broadcast during Prime Time and Late Night are the Company's original productions. The following table shows the percentages of GMA-produced, canned/syndicated and blocktime/co-production programs the Company showed during specific time periods for the three months ended March 31, 2007:

Time Period	GMA-Produced	Canned/ Syndicated	Blocktime/Co-Production
Morning	51%	40%	9%
Afternoon	48%	20%	33%
Prime Time[1]	87%	8%	4%
Late Night	73%	11%	16%

(1) Based on the industry standard classification.

The Company's program scheduling process involves the selection of programs according to available slots, while taking into consideration rating targets and cost efficiency. The Company relies on its Prime Time broadcasts for the majority of its advertising revenue. In 2006, more than 60% of the Company's advertising income was generated from advertising that was broadcast during Prime Time, despite the fact that Prime Time advertising accounts for less than 40% of the Company's total minute load.

The Company broadcasts on Channel 7 in Mega Manila weekdays from 4:30 a.m. to 2:30 a.m. and weekends from 5:00 a.m. to 2:00 a.m. The Company's broadcasts are aired throughout the Philippines, transmitted to the Company's television stations and one affiliate station by satellite and re-broadcast simultaneously with the Company's broadcast in Mega Manila. For these broadcasts, both the programs and the commercials are broadcast nationwide. During certain hours in the day, particularly between 6:00 p.m. and 6:30 p.m. on weekdays and certain times on weekends, in addition to the GMA broadcast signal, certain of the Company's originating stations in the provinces outside Mega Manila broadcast local news, public affairs and entertainment programming and advertising to serve their local markets. These provincial originating stations with play-out capabilities, including in Cebu, Iloilo and Davao, are given flexibility in the national grid program and broadcast programs, including *Balitang Bisdak, Ratsada, Testigo, Oi, Bongga* and *Kuyaw*, in the relevant local dialect or language.

Qtv

Qtv was launched in late 2005 in partnership with Zoe Broadcasting Network, Inc., and is the first television station in the Philippines specifically tailored to middle- to upper-class women, who are home-makers, have careers and/or are mothers. The Company intends to target viewers who are not current or regular viewers of Channel 7 programming. Further, the Company has strategically programmed *Qtv* to suit this demographic of viewers, as it believes that female viewers constitute the majority of television viewers and are a consumer group particularly attractive to advertisers. Sharing production resources and artists with GMA Channel 7, the carefully produced shows are scheduled to coincide with women's daily routines and contain programming that highlights what the Company believes is most important to women. In addition, *Qtv* broadcasts quality and wholesome programs for the family.

The Company's subsidiary, Citynet Network Marketing and Productions, Inc. ("Citynet") entered into a co-production and block-time agreement with Zoe Broadcast Network, Inc., which owns and operates VHF Channel 11. Under the agreement, the Company provides all of the programming to Channel 11. The Company also provides the higher of either a percentage of gross sales of *Qtv* or a guaranteed minimum amount. In addition, the Company agreed to upgrade certain of the Zoe Broadcasting Network's broadcast facilities as well as broadcast a Zoe Broadcasting Network, Inc. program on Saturday and Sunday mornings. *Qtv* utilizes the 100 KW transmitter tower used by GMA Channel 7 in Quezon City. *Qtv* is currently being transmitted for broadcast in Manila, Cebu and Davao.

The programs broadcast on *Qtv* include news and public affairs programs, such as *At Your Service — Star Power,* and entertainment programs such as *Sabado Showdown, Ang Pinaka and others.* According to AGBNMR Phils., for the three months ended March 31, 2007, *Qtv* had a Total Day (8:00 a.m. to 12 midnight) household rating of 1.6% and an audience share of 3.8%, making *Qtv* the third-highest rated station in Mega Manila.

GMA Pinoy TV

The Company operates *GMA Pinoy TV*, through which it offers subscription-based programs internationally. *GMA Pinoy TV* delivers to an international audience most of the Company's most popular news and public affairs and general entertainment programs that have made the Company the top-rated television station in Mega Manila. *GMA Pinoy TV* is currently available in the United States, Japan, Guam, Saipan, Papua New Guinea, 16 countries in the Middle East and 11 countries in North Africa.

GMA Pinoy TV aims to establish global exposure and presence for the network that will bring the Company's programs to Filipino communities around the world. In May 2005, the Company signed a carriage agreement with Comcast Corporation for the cable distribution of *GMA Pinoy TV* in the United States and now broadcasts *GMA Pinoy TV* in northern and central California. In August 2005, *GMA Pinoy TV* also began distribution throughout the United States via DirecTV, and in December 2005, Cox Communications began broadcasting *GMA Pinoy TV* in San Diego, California. Also in 2005, the Company signed an agreement with Guam Cablevision for the distribution of *GMA Pinoy TV* in Guam and Saipan and with IPS Inc. and Mediatti Broadband Communications LLC for distribution in Japan via the Access TV DTH platform. In February 2006, the Company signed an agreement with Orbit Communication for the distribution of *GMA Pinoy TV* in 16 countries in the Middle East and 11 countries in North Africa. In August 2006 and

February 2007, *GMA Pinoy TV* expanded its reach in the United States by launching its broadcasts in Los Angeles, California and Hawaii with Time Warner Cable, and in California with San Bruno Cable, respectively. In January 2007, *GMA Pinoy TV* also commenced broadcasts on Papua New Guinea's Channel 8. Under the carriage and licensing agreements with international cable carriers, the Company generally receives a portion of the subscription fees and is also allocated a certain number of advertising minutes through which the Company may sell advertising spots, which it does through its subsidiary, GMA Marketing. GMA Marketing also participates in joint promotions with various carriers for the marketing of GMA Pinoy TV.

As at March 31, 2007, *GMA Pinoy TV* had approximately 136,000 subscribers. Currently, the Company is negotiating with pay television operators to expand distribution of *GMA Pinoy TV* to Europe, Canada and Australia in 2007. *GMA Pinoy TV* has been registered as a "Pioneer Enterprise" by the Philippine Board of Investment, which entitles the Company to a tax holiday on revenues generated by *GMA Pinoy TV* for a period of four years from January 1, 2007.

GMA's Second International Channel

The Company is currently preparing to introduce a second international channel which will broadcast programming from *Qtv*. The Company is in negotiations with pay television operators in the United States, Europe, the Middle East, North Africa, Japan and Australia for distribution of this channel.

Production Facilities

The Company's production facilities are housed in a complex located in Quezon City, which includes the GMA Network Center. The complex, which serves as the headquarters and central office of the Company, has a total land area of 17,466 square meters and houses five television studios. Three state-of-the-art television studios are located in the GMA Network Center, a 16-story structure with a total floor area of 31,520 square meters. These studios are located in separate structures within the complex. The Company has also leased two off-site television studios in Quezon City and Makati City. The television studios are each equipped with advanced broadcast equipment, including audio, video and lighting systems, and occupy a total area of 2,100 square meters. The television studios are supported by facilities for live and recorded production editing, graphics, dubbing, sub-titling and training.

In the GMA Network Center, two floors are dedicated facilities for post-production and include a modern audio recording studio. The GMA Network Center also houses the Technical Operations Center, from which the Company's local and international broadcasts emanate. The post-production facilities consist of 57 nonlinear video editing stations, 19 linear video editing stations, 23 videographics stations, five linear audio scoring/editing facilities, six nonlinear audio editing facilities, and two audio recording studios. Post-production is comprised of video editing, videographics and audio sections supported by technical and administrative teams.

In 2006, the Company commenced construction of the GMA Network Center Annex, a four-storey building constructed on a 4,053 square meter property adjacent to the GMA Network Center. The building is designed to contain 18,404 square meters of gross floor area, and will house two television studios, studio support facilities and an underground parking garage with 110 parking spaces. The two studios will have a combined total floor area of approximately 1,873 square meters. One studio will be dedicated to live shows, and the other to taped programs. The studio support facilities will house broadcast and theater systems, in addition to rehearsal, dressing, administrative and storage rooms. Further, the GMA Network Center Annex will also house an energy center to support the power requirements of the GMA Network Center Annex and any future development within the complex, a sewage treatment plant and a bridgeway which will connect all electrical and mechanical utilities from the energy center to the GMA Network Center Annex and also serve as a pedestrian walkway. The Company expects to spend a total of ₱800 million on the construction of the GMA Network Center Annex, of which, as of March 31, 2007, it has already allocated and expended approximately ₱200 million. The building is expected to be completed in June 2008. The Company believes that, when operational, these facilities will not only allow it to improve the production values of its programs but will also provide it with a cost-saving advantage over its competitors, by allowing it to centralize all aspects of production in one building and to eliminate leasing expenses for additional studio space.

In 2005, the Company enhanced its audio recording capabilities with the creation of its state-of-the-art digital audio recording studios. The Company's post-production facilities can handle recording and mixing of audio works from simple voice-overs to complex sound or foley recording and entire music albums. The Company's post-production facilities have been able to service the music recording needs of various programs such as *S.O.P., Pinoy Pop Superstar*, GMA Films' *Mulawin (the Movie)*, the *Moments of Love DVD* commentary recording, the Company's 2006 year-end television special featuring the top bands in the Philippines and several projects of GMA Records such as the recent albums of artists Yasmien Kurdi and Janno Gibbs.

Through these production facilities, the Company has produced 39 programs for Channel 7 and 23 programs for *Qtv* for the year ended December 31, 2006. Additionally, these facilities have also been actively used in re-purposing 51 archive and quick turnaround (same-day airing) titles for international broadcast on *GMA Pinoy TV*, as well as an average of 70 promotional spots a day for the Company's television broadcasts and the operations of the Company's subsidiaries. Audio visual presentations and special projects for various activities were also produced throughout the year as well as program body materials such as program openers, OBBs/CBBs, title cards, segment cards, animated icons, visual effects, and other on-air collaterals. All corporate and network image materials such as station identification plugs and sponsored interstitials are also produced in-house.

The Company's wholly-owned subsidiary, Alta Productions, operates as an independent production facility providing both pre- and other post-production services to the Company's television network as well as other clients. See " - Subsidiaries and Affiliates — Alta Productions Group, Inc."

Syndication Sales

The Company's originally-produced programs are distributed through syndication sales by GWI to foreign buyers or television stations and are currently broadcast by them in Canada (including *Pinoy Pop Superstar, Magpakailanman* and *Pop Star Kids)*, Cambodia (including *Mulawin*) and Malaysia on free-to-air and cable television (including Bakekang and *Encantadia*). Negotiations are on-going with clients in Indonesia, Malaysia, Taiwan and Canada for the sale of the Company's fantasy and drama series and theatrical titles produced by GMA Films. The Company generally licenses rights to broadcast the Company's programs to foreign television stations, agents and distributors in exchange for a fixed license fee. The purchaser is granted the right to broadcast or sub-license the relevant program for an agreed license term and a fixed number of broadcasts. GWI also manages the sale of news footage produced by the Company's News and Public Affairs division to various foreign news agencies, networks and producers.

Ratings

Until 2000, the Philippine television industry, including the Company, relied on Metro Manila Peoplemeter Ratings provided solely by Nielsen Media Research through the Philippine TV Research Council. In 2001, the Philippine TV Research Council endorsed AGB Phils. as the industry ratings provider, which expanded coverage to Mega Manila. In March 2005, Nielsen Media Research and AGB Phils. were merged into AGBNMR Phils.. The Company utilizes the services of AGBNMR Phils., which produces a single set of ratings for Mega Manila; AGBNMR Peoplemeter Ratings, which conducts ratings surveys for Metro Cebu, Davao City and Dagupan City; and the Philippine Survey Research Company — Research International ("PSRC-RI"), which conducts ratings surveys, mainly for radio broadcasting, in other key provincial cities. Another television ratings company, TNS Phils., is expected to commence operations in the first half of 2007 and to provide ratings for Mega Manila and in other urban areas in the Philippines. In November 2006, AGBNMR Phils. began conducting an urban nationwide ratings survey, while TNS Phils. is currently in the process of preparing to launch urban nationwide rating surveys in the Philippines. For more information, see "The Philippine Television Industry — TV Ratings measurements".

The Company has ranked first in Total Day time television ratings in Mega Manila since late December 2003 and across all time blocks since September 2004, according to AGBNMR Phils. The Company's resurgence in ratings began in 2001 as the Philippine television industry expanded ratings coverage from Metro Manila to Mega Manila and the Company's household ratings and audience shares increased further through 2005 as a result of the Company's efforts to re-engineer its image. In 1998, the Company's Metro Manila rating was 10 points behind its closest competitor, ABS-CBN, according to Nielsen Media Research, but by 2003 had improved to only two points behind under the expanded Mega Manila coverage area according to AGB Phils. Similarly, in 2000, the Company's Metro Manila audience share gap with ABS-CBN was 21 points according to Nielsen Media Research, but by 2003 had improved to only six points behind under the Mega Manila coverage area according to AGB Phils.

By September 2004, the Company overtook ABS-CBN in terms of household ratings and audience shares in all time blocks including the weekday Prime Time block which had formerly been ABS-CBN's strongest block. In 2006, the Company's lead over ABS-CBN in household ratings and audiences shares had extended to 4.2% and 9.9%, respectively. The Company's Total Day household ratings and audience shares in Mega Manila fell in 2006 compared to 2005 due to stronger competition from ABS-CBN, as well as from viewers watching *Qtv* rather than Channel 7. The following table shows the Total Day household ratings and audience shares in Mega Manila for the Company and its competitors:

	For the year ended December 31,						For the three months ended March 31,	
	2004		2005		2006		2007	
	Household Ratings(1)	Audience Share(2)	Household Ratings	Audience Share	Household Ratings	Audience Share	Household Ratings	Audience Share
GMA (Channel 7)	17.0	41.4	18.6	45.6	17.6	42.1	17.3	42.1
ABS-CBN	15.5	37.6	13.9	34.0	13.4	32.2	14.7	35.7
Qtv(3)	—	—	1.3	3.3	2.0	4.9	1.6	3.8
STUDIO 23	1.4	3.5	1.2	3.0	0.8	1.9	0.6	1.4
ABC	1.0	2.3	1.0	2.4	1.3	3.1	1.4	3.4
RPN	0.9	2.2	0.9	2.3	1.0	2.4	0.7	1.7
IBC	0.5	1.2	0.4	1.1	0.3	0.7	0.2	0.6
NBN	0.4	1.0	0.3	0.6	0.3	0.7	0.4	1.0

Source: Nielsen Media Research and AGBNMR Phils.

(1) Household ratings typically do not add to 100%.

(2) While Audience Share percentages normally would add to 100%, they do not in this case as this table excludes information on UHF networks.

(3) *Qtv* was launched in November 2005. Ratings data for 2005 includes ratings from the months of November and December only.

The Company's programs currently dominate the list of most watched television programs in the Philippines. Based on data from AGBNMR Phils., for the year ended December 31, 2006, the Company aired all of the top 10 regular television programs and 19 out of the top 30 regular television programs and for the three months ended March 31, 2007, the Company aired 17 out of the top 30 regular television programs in Mega Manila in terms of household ratings, compared to only 16 out of the top 30 in 2004. These household ratings reflect overall or Total Day ratings, and are for regular programs only and exclude television specials. Of these 19 programs aired in the year ended December 31, 2006, 14 were the Company's original productions featuring its on-camera talents. For the three months ended March 31, 2007, the Company also aired 22 out of the top 30 Day Time television programs in Mega Manila. Among evening programs in Mega Manila, the Company aired 19 of the top 30 programs for the year ended December 31, 2006 and 16 of the top 30 programs for the three months ended March 31, 2007, compared to only 14 out of the top 30 in 2004. In addition, for the year ended December 31, 2006, the Company aired the top rated program in each of the major program categories, including Anime/Cartoons, Children's Educational, Comedy, Drama (Day Time), Drama (Prime Time), General Talk Show, Magazine Show, News, Public Affairs, Reality/Game Show, Showbiz Talk Show and Variety Show.

The following table shows the average number of the Company's programs in the overall top 30 in terms of household ratings in Mega Manila and certain key provincial cities.

	For the year ended December 31,[1]			For the three months ended March 31,
	2004	2005	2006[2]	2007
Mega Manila	16	21	19	17
Metro Cebu	3	2	N/A	N/A
Davao City	0	0	N/A	N/A
Dagupan City	3	3	N/A	N/A

Source: Nielsen Media Research and AGBNMR Phils.

(1) Full-year averages are determined by averaging program performance by the period covered. Although specials and programs that are aired once are often removed from the averaging, it is possible for a show that aired for one week or less to appear among the top programs in terms of full-year averages.

(2) No ratings data is available for cities outside of Mega Manila after 2005.

Aside from the Company's Regional Expansion Project to improve the signal and reach of the Company's broadcast, the Company has made specific efforts at promoting awareness of the Company's programs in key provincial markets. For example, local content has been developed for regional news and local variety shows. In addition, the Company has televised and performed certain programs live in certain key provincial areas, or organized events with local festivities to ensure maximum exposure.

Advertising

The Company's revenue is derived mainly from advertising revenue generated from the sale of commercial airtime representing advertisements in the form of spot announcements purchased to run between programs and program segments and sponsorships. Advertising airtime is sold mainly through advertising agencies which act as the buying agents of advertisers, and, to a lesser extent, directly to advertisers. Airtime revenues are generally subject to a 15% agency commission. The following table sets out the Company's net advertising revenues for the last three years and the three months ended March 31, 2006 and 2007:

	For the year ended December 31,			For the three months ended March 31,	
	2004	2005	2006	2006	2007
Television and radio advertising revenue (₱ millions)	7,801.0	9,606.7	10,495.6	2,229.4	2,395.6
Growth (%)	23.2%	23.1%	9.2%	—	7.4%
Number of television advertisers	319	318	320	167	169

GMA Marketing has two sales teams for advertising (comprising approximately 41 account executives), one focusing on News and Public Affairs, regional television and radio, and the other on Entertainment and *Qtv*. The News and Public Affairs sales team has one sales director and five account executives, along with a team of 10 account executives dedicated to radio sales. The Entertainment sales team is sub-divided into six teams, each with three or four account executives. Six account executives are dedicated to *Qtv* and each works with a different sub-group. Each account executive is responsible for a group of advertisers and advertising revenue and earns commissions based on achieving sales targets. The Company's advertising packages are increasingly designed to meet the needs of its advertisers who are interested in more creative exposure than standard spot placements. The following are the different kinds of traditional advertising packages available:

- Regular Media Order — acquisition of regular television advertisement spots

- Sponsorship — a variety of on-air/off-air advertising packages relating to television programs sponsored by the advertiser. Forms of advertising that sponsorship packages may include are:

  - o Commercials — regular television advertisement spots;

  - o Opening and closing billboards — a short advertisement appearing when a television program starts and finishes; and

  - o Break bumpers (in and out) — short advertisements aired at the start and finish of each advertisement break.

In addition to selling traditional commercial spots, GMA Marketing produces and sells merchandising plugs, storyline intrusions, endorsement plugs and other products that add value to the Company's programs by increasing the amount of airtime available for the advertisers' products.

For the year ended December 31, 2006, the Company's top 10 advertisers accounted for approximately 50% of gross air time revenue from television broadcasting. The Company's top 10 advertisers are composed predominantly of multinational corporations selling mass market home, health care, beauty and other consumer products, and also include food and beverage companies and fast food chains. The Company's top 10 advertisers according to Nielsen Media Research and AGBNMR Phils. are listed below in alphabetical order:

For the year ended December 31,		
2004	**2005**	**2006**
Bristol-Meyers Squibb	Bristol-Meyers Squibb	Bristol-Meyers Squibb
Globe Telecom	Globe Telecom	Globe Telecom
Johnson & Johnson	Johnson & Johnson	Johnson & Johnson
Monde Nissin	Jollibee Foods	Jollibee Foods
Nestle	Nestle	Nestle
Procter & Gamble	Procter & Gamble	Procter & Gamble
Smart Communications	Smart Communications	Smart Communications
Unilever	San Miguel Group/Coca-Cola	Unilever
United Laboratories	Unilever	United Laboratories
Universal Robina Corporation	United Laboratories	Wyeth

In accordance with industry practice, the Company's advertising rates are set out in its rate card, and are reviewed on an annual basis after negotiations with advertisers. The relative advertising rates charged by television networks and stations and advertisers' willingness to purchase advertising time are determined in part by the Company's stations' overall ratings and share in a given market, as well as its rating and share among a particular demographic group which an advertiser may be targeting in specific time periods. Market conditions are also important, as are the number of advertisers competing for available time, the size and demographic composition of the respective day-part desired and the availability of alternative advertising media in the market area affect advertising rates.

The Company sets differing rates for commercial airtime, depending on the program and on the time slot. Once these rates are set, they apply until a new set of rates are established the following year. The following table shows the high and low rates for Prime Time and non-Prime Time advertising set out in the Company's rate card for the periods shown:

	For the year ended December 31,			For the three months ended March 31,
Time slot	**2004**	**2005**	**2006**	**2007**
		(₱ per 30 second spot)		
Prime Time				
High	231,840.0	301,392.0	360,000.0	432,000.0
Low	231,840.0	289,800.0	347,750.0	399,912.5
Non-Prime Time				
High	144,900.0	159,390.0	217,000.0	249,550.0
Low	53,544.0	58,898.0	70,700.0	81,075.0

The rates for regional advertising spots are calculated differently and are generally less than the rates applied in Mega Manila. In line with prevailing industry practice, the Company's advertising rates are also structured to offer negotiated discounts with larger advertisers and certain advertising agencies and further volume discounts for advertising agencies.

The Company attempts to maximize its airtime revenues by increasing its load factor. Load factor refers to the amount of commercial minutes aired during the breaks/gaps of a program as a percentage of the total minutes available for advertisement. The following table shows the Company's average load factor for Prime Time (using the industry standard classification) and Non-Prime Time periods:

	For the year ended December 31,			For the three months ended March 31,	
	2004	2005	2006	2006	2007
Time slot	**Load Factor**				
Prime Time	86%	91%	82%	70%	69%
Non-Prime Time	51%	54%	48%	41%	36%

While these numbers appear to indicate that the Company is using most of its available advertising airtime during Prime Time, the Company can and has taken a number of steps to expand its advertising airtime, including allowing 20 minutes of advertising airtime per hour during Prime Time rather than 18 minutes in some programs and using non-traditional advertising methods to include advertising in original programming. Due to the high popularity of certain of its programs, for the purposes of setting its advertising rates, the Company is able to include in its Prime Time block some programs whose run times are outside of the traditional industry Prime Time period. The effect of this practice is to extend the Company's Prime Time block to between the hours of 5:30 p.m. and 11:00 p.m. on certain days of the week.

Another measure of efficiency in use of available advertising airtime is total advertising minutes loaded. The following table presents total minutes loaded, including minutes loaded during blocktime programs, of the major television networks in the Philippines between 2004 and 2006 and in the three month periods ended March 31, 2006 and 2007:

	For the year ended December 31,						For the three months ended March 31,			
	2004		2005		2006		2006		2007	
Network	**Minute load(1)**	**(%) of total**	**Minute load**	**(%) of total**	**Minute load**	**(%) of total**	**Minute load**	**(%) of total**	**Minute load**	**(%) of total**
GMA (Channel 7)	**92,774**	**36%**	**104,543**	**37%**	**99,190**	**37%**	**21,988**	**36.9%**	**19,927**	**35.4%**
ABS-CBN	82,470	32%	83,077	30%	75,119	28%	17,102	28.7%	17,522	31.1%
ABC	16,580	6%	26,175	9%	20,599	8%	4,155	7.0%	4,185	7.4%
Studio 23	23,106	9%	20,874	8%	16,383	6%	3,417	5.7%	3,203	5.7%
RPN	19,690	8%	18,899	7%	14,330	5%	3,547	6.0%	2,275	4.0%
IBC	11,856	5%	13,626	5%	11,040	4%	2,920	4.9%	1,544	2.7%
NBN	10,335	4%	10,060	4%	12,838	5%	3,785	6.4%	2,004	3.6%
Qtv(2)	—	—	2,504	1%	21,867	8%	2,665	4.5%	5,625	10.0%
Total(3)	256,811	100%	279,758	100%	271,366	100%	59,579	100%	56,285	100%

Source: Nielsen Media Research and AGBNMR Phils.

(1) Minute load numbers are net of advertising time for government plugs, station identifications, network promotions and five-second plugs, as classified by Nielsen Media Research and AGBNMR Phils.

(2) *Qtv* was launched on November 11, 2005.

(3) Includes Channels 2, 4, 5, 7, 9, 11, 13 and 23, only.

(4) Advertising minutes loaded during the San Miguel documentary are not included in this summary.

Marketing and Sales

The Company's objectives in marketing are to be the most cost efficient and effective media vehicle, to provide clients with the media exposure they seek in terms of cost efficiency and creativity, and to provide the most professional sales service in the industry. GMA Marketing, a wholly-owned subsidiary of the Company, is the exclusive marketing and sales arm for the Company's television and radio advertising airtime. GMA Marketing provides the link between the network and its clients, advertisers, and advertising agencies. It also acts as the market and media research center of the Company.

GMA Marketing provides GMA clients with services such as media packages, promotional programs and materials and creative products. Part of the sales and marketing strategies are the staging of events such as trade presentations, program launches, on-ground production of mall tours, fan days, promotions, program campaigns and other promotional campaigns in collaboration with the Company's program management groups. In all of these activities, the main focus of GMA Marketing is to service its client-advertisers and generate sales and sponsorships. In addition, GMA Marketing is engaged in the scheduling of commercials and implementation of spots. This ensures that sales contracts are properly implemented as specified through the use of an in-house system of logging and monitoring of spots on a per program, per contract and per account basis.

Television Broadcast and Transmission Facilities

The Company's activities are supported by sophisticated broadcast and transmission technology. From December 31, 2004 to December 31, 2006, the Company has spent approximately ₱996 million on production, broadcasting and other transmission equipment.

The Company's television programs are broadcast from its main facilities at the GMA Network Center in Quezon City, Metro Manila. To facilitate its growth and expansion plans and further improve its broadcast capabilities, the Company completed its ₱180 million BAS project in January 2005. Implemented by teams from the engineering, post-production, information and communication technology, administration and supply and asset management departments, the BAS handles material and commercial playout of the Company's local and international channels, including Channel 7, *Qtv*, and *GMA Pinoy TV*. The BAS is principally used for on-air operations and contains an integrated video-editing server with a storage capacity of 356 hours of high quality video. The BAS incorporates master control room ("MCR") facilities, which control on-air playout operations, including on-air continuity and immediate manual control of on-air operations. The BAS contains fault tolerant transmission servers with a total storage capacity of 1,006 hours of high resolution videos dedicated to on-air operations. The BAS allows both transmission servers and post-production video servers to make live and tape ingests, and to serve as redundancy servers for the Company's on-air operations. The configuration of these servers also ensures the high reliability and availability of the integrated system. Contents stored on the video servers, including programs, commercials, station identifications and plugs are easily managed and played on the air efficiently and without discrepancies. The BAS tracks and records all activities through system logs and "as-run" logs that provide the actual time, duration and playout details of all material broadcast on specific channels. The BAS can easily expand its storage capacity and channel availability as needed.

The Company's television programming is distributed using various transmission technologies including fiber, satellite, microwave and other terrestrial facilities. The main broadcast transmitter in Tandang Sora, Quezon City, is linked to the GMA Network Center using fiber, microwave and satellite systems. The microwave and satellite systems serve as back-up facilities in case of fiber failure. The Company has leased 22.5 MHz of satellite bandwidth on the MEASAT-2 satellite, which is owned and operated by MEASAT Satellite Systems Sdn Bhd. This capacity enables the Company to distribute VHF, *Qtv* and international programming via satellite. Part of the bandwidth is also used to provide satellite news gathering capabilities for news operations.

The Company's provincial television relay stations rely mainly on the satellite distribution platform to carry the Company's programming. The Company's regional and provincial originating stations insert local programming and/or commercials via microwave links to their respective transmitters. The Company's programming is sent to regional originating stations through the satellite and "switched" to local programming depending on the time slot allocated.

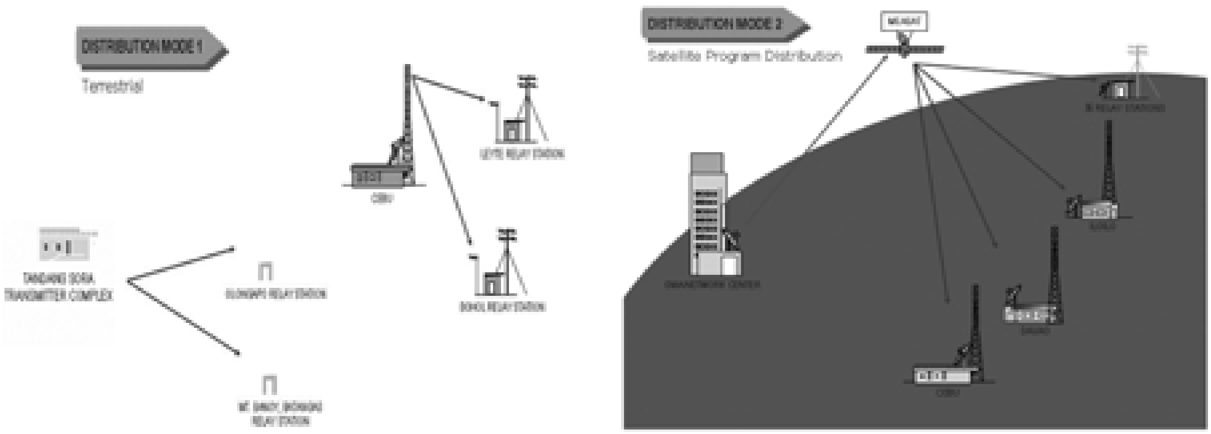
The Company aims to continuously improve the clarity of its signal and the reach of its stations in cities outside of Mega Manila through the implementation of its Regional Expansion Project, as described below. For example, in October 2004, the Company completed the upgrade of the antenna system in its Bonbon, Cebu transmitter facility. In January 2005, the Company installed a new all solid-state VHF transmitter in Davao, increasing transmission power from 10 KW to 30 KW and in December 2005, the Company activated a new 10 KW transmitter facility in Bacolod City. In early 2007, the Company completed its upgrade of transmitter facilities in Mt. Sto. Tomas in Benguet, including the erection of a new 180 foot antenna tower and the installation of a 20 KW solid-state VHF transmitter.

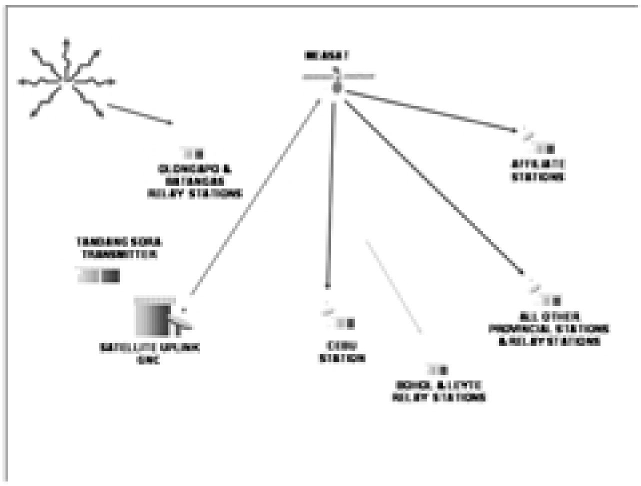
The Company has allocated ₱195 million to its Regional Expansion Project for fiscal year 2007. The Company intends to upgrade and enhance studio facilities in Cebu, Davao, Iloilo and to construct new studios in Dagupan and Naga. The new studios will initially be used primarily for local news programs and will broadcast primarily in the respective regional dialects. In addition, the Company plans to upgrade and strengthen major transmitter installations in Batangas, Naga, Mt. Kitanglad and General Santos to further extend the Company's broadcast coverage. The Company will also construct new relay stations in Mt. Amuyao, which is in Mountain Province, and in Cagayan de Oro City. The Company believes regional expansion will prepare it to meet the demands of advertisers who are increasing their presence in regions which encompass the greatest number of television-owning households. Further details of the Company's planned expenditures for the remainder of 2007 for the initiatives in the Regional Expansion Project are as follows:

Project	**Budgeted Amount**	**Project Description**
	(in ₱ millions)	
Cebu transmitter upgrade	55.5	Replacement of existing tube-type transmitter with solid-state fully redundant transmitter
Mt. Amuyao 2 KW transmitter facility	14.5	Installation of solid-state transmitter; construction of transmitter building; construction of guyed tower
Cagayan de Oro 10 KW Relay Station TV-12	11.3	Construction of new building; relocation of 200-foot self-supporting tower; acquisition of new antenna system; retuning of devolved solid-state transmitter
General Santos 10 KW Relay Station TV-8	20.9	Construction of new transmitter building; construction of 300-foot self-supporting tower; antenna system upgrade
Batangas 5 KW Relay Station TV-12	12.1	Installation of new transmitter; construction of new transmitter building; construction of new tower
Naga Relay Station TV-7	36.2	Installation of new solid-state transmitter; construction of 300-foot self-supporting tower; construction of new transmitter building; installation of new antenna system

Project	Budgeted Amount	Project Description
	(in ₱ millions)	
Kitanglad 10 KW TV-8	3.3	Modifications to augment new CDO transmitter facility
Iloilo Studio	9.5	Construction of a new building to house the Iloilo studio facilities
TOC/Studio equipment for Regional TV	28.0	To fully equip the Cebu, Iloilo, Dagupan and Davao TOC and Studios
Various antenna and tower rehabilitation in the regions	3.6	Various rehabilitation projects
Total	194.9	

The following diagram shows the Company's local broadcast distribution methods:



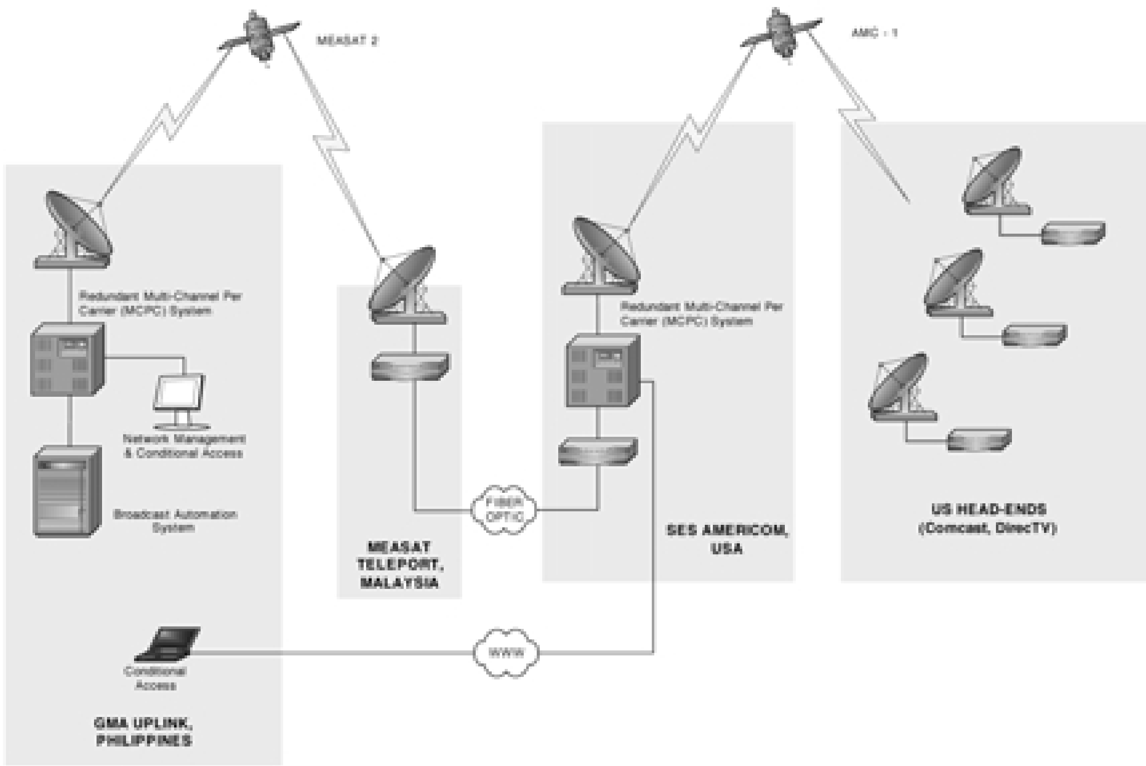


The Company's international channel, *GMA Pinoy TV*, is distributed to cable operator partners by satellite with two separate grids originating from the BAS at the GMA Network Center. One grid focuses on the Asia-Pacific region and the other on the continental United States. The signals are beamed to the MEASAT-2 satellite using the Company's satellite Multiple-Channel-Per-Carrier infrastructure. The Asia-Pacific cable operators currently covered by the MEASAT-2 satellite footprint, including Malaysia, Guam, and Japan, receive the signal directly from the satellite and redistribute signals to their respective subscribers. IPS Inc., which is responsible for bringing the *GMA Pinoy TV* signal to Japan, receives the Asia-Pacific grid through Philippine Multimedia Systems, Inc located in Pampanga. The signal is re-transmitted by fiber to Japan and re-distributed via a DTH platform on Superbird satellite. Access to the *GMA Pinoy TV* signal on MEASAT-2 is controlled through a conditional access system, centrally managed by the Company's uplink operations.

For distribution in the continental United States, the *GMA Pinoy TV* signal is received at MEASAT's facility in Kuala Lumpur, Malaysia and sent by fiber to the continental United States, terminating at SES Americom's satellite up-link facility. The signal is re-distributed in the United States through the AMC-1 domestic satellite to cable head ends, the originating points where cable operators have their satellite dish and television antenna for receiving incoming programming. Conditional access to the *GMA Pinoy TV* signal by United States cable head ends is controlled remotely by the Company's uplink operations. The program is transmitted digitally through the entire system from the Company.

The following diagram shows the broadcast distribution of the Company's international subscription channel to the United States:

GMA PINOY TV US CARRIAGE



The Company has contingency systems to ensure continuous operations in the event of the occurrence of certain catastrophic events. For example, the Company has standby electric power to sustain its broadcasting operations in the event of a power loss. The Company can also rely on two-way radio frequencies to continue communications in case of a telecommunications failure. In case of a satellite uplink failure, the Company has a complete set of Satellite Uplink Disaster Recovery equipment stored at an offsite facility. This equipment is capable of replicating the current satellite uplink transmission system. In the event of total prolonged Uplink Systems failure the disaster recovery equipment will provide interim transmission. In the event of transponder or total failure of the MEASAT-2 satellite, MEASAT can provide access to its other satellites or the Company can transfer its signal to other satellite providers to restore coverage in its service areas.

Artist Management

Television viewers in the Philippines generally prefer local content programming, as they naturally identify with the talents used for such programs. This highlights the importance for the Company of creating a pool of talents that a network can nurture, train and develop in order to tap into for the local content focused programs. The Company acts as a talent manager through GMAAC, which manages, develops and promotes its "Artists", comprising television, film, theatre and radio actors, as well as advertising and commercial models and endorsers. GMAAC serves its artists by managing their career paths, providing development programs to enhance their innate skills and talents, representing them in all sectors of the entertainment industry and promoting them through various media platforms. As at March 31, 2007, GMAAC had 110 artists under artist management contracts. Artist management contracts through GMAAC are generally for a basic period of two years with the option to renew. The majority of these artist management contracts are exclusive management agreements. The remainder are co-management agreements, where the artist has a third-party manager with whom GMAAC shares the duties of managing the talent and the commissions derived from the artist's projects or bookings.

GMAAC also provides its Artists with enhancement and development programs through its talent development unit. The talent development unit regularly evaluates and assesses Artists to determine their need for improvement and provides them with appropriate training. GMAAC also offers workshops to the public where the Artists are enrolled as scholars. The income derived from these public workshops is used to pay for the Artist training programs. Workshops currently offered include: acting workshops for film and television, or for theatre, which are open to all ages, a film and televisions production workshop, a singing workshop and a dancing workshop. These workshops culminate in the production of digital films and CD recordings, staged theatre productions, concerts and dance performances. To date, GMAAC has already produced four full-length digital films, nine short-length digital films and two plays from these workshops. 487 students have already graduated from the workshops. Additionally, GMAAC includes a casting unit, which serves to discover new talents for the Company and for various domestic and international advertising and casting agencies. GMAAC also offers Booking Agreements where GMAAC acts as an agent, books artists for events and earns a percentage of the talent fees as commission. GMAAC is rapidly becoming the primary source of high quality talents for the Company and for third-party advertisers, agents, movie producers, record companies, charitable and civic organizations and other corporations

Booking agreements are agreements where GMAAC books artists for events without management services and where a commission is earned as a percentage of the talent fees. GMAAC is rapidly becoming the primary source of high quality talents for the Company and for third-party advertisers, agents, movie producers, record companies, charitable and civic organizations and other corporations.

Awards for Television Production

The Company has received a number of awards, local as well as international, in relation to the quality of its programming. For example, in 2000, the Company became the first and only network in the Philippines to be awarded the prestigious *George Foster Peabody Award*, which recognizes outstanding work by radio and television networks, producing organizations, cable television organizations, and individuals. The Company has been recognized at the *Asian Television Awards*, which recognize and reward programming and production excellence among broadcasters, including free-to-air television stations and pay television platforms in Asia. At the 2005 *Asian Television Awards*, the Company was awarded Terrestrial Channel of the Year, Best Social Awareness Program (*Buto't Balat — I-Witness*), Best Entertainment Special (*Eat Bulaga Silver Special*), Best News Program (*24 Oras Camp Bagong Diwa Siege*), Best Current Affairs Program (*Reporters Notebook's "Batang Hit Man"*) and Best Infotainment Program (*Pinoy Boxers - Pinoy Abroad*).

In 2005 the U.S. International Film and Video Festival, an international event recognizing outstanding business, television, documentary, entertainment, industrial and information productions, awarded to the Company the *Gold Camera Award for Community Development*. Additionally, several of the Company's programs were featured at this festival, including: *At Your Service ("Under the Sea" Special), Certificates of Creative Excellence, Debate with Mare and Pare, Extra Challenge, I-Witness, Imbestigador, Kay Susan Tayo and Wish Ko Lang*. The Company has also been recognized at the *CNN World Report Awards, Catholic Mass Media Awards* (in recognition of wholesome and quality programming) and the *New York International Independent Film and Video Festival Awards*.

In the Philippines, the Company has been named the Best Television Station of the Year in 2006 at the Philippine Movie Press Club ("PMPC") Star Awards and by the Rotary Club of Manila. The USTv Thomasian Students' Choice Awards also cited the Company as the Most Awarded Television Station while the Volunteers Against Crime and Corruption gave it the "Outstanding Television for 2005-2006" award.

In 2006, 13 Channel 7 and two *QTV*-11 programs were named as the best programs in their respective categories at the PMPC Star Awards. In addition, many of the Company's talents are also recipients of awards, among them, Arnold Clavio (Broadcast Journalist of the Year for Television, Rotary Club of Manila, Journalism Awards); Howie Severino (Investigative Journalist of the Year for Television, Rotary Club of Manila, Journalism Awards); Vicky Morales (Best Female Newscaster for *Saksi*, PMPC Star Awards); Mike Enriquez (Best Public Service Program Host for *Imbestigador*, PMPC Star Awards); Winnie Monsod and Oscar Orbos (Best Public Affairs Program Hosts for *Debate*, PMPC Star Awards); Rufa Mae Quinto (Best Comedy Actress for *Hokus Pokus*, PMPC Star Awards); Ogie Alcasid (Best Comedy Actor for Bubble Gang, PMPC Star Awards and Arnel Ignacio (Best Game Show Host for *Now Na!*, PMPC Star Awards).

Radio Business

The Company produces and broadcasts radio programs in 16 cities and one municipality across the Philippines on its operating network of 25 radio stations, one of which is minority-owned by the Company through RGMA. Eight of the radio stations are AM stations and 17 radio stations are FM. The Company's radio stations include DZBB-AM and DWLS-FM in Manila, DYSS-AM and DYRT-FM in Cebu as well as 21 other radio stations in the provinces. In addition to the original four radio stations in Manila and Cebu, the Company has seven radio stations in Luzon (six FM and one AM), seven radio stations in the Visayas (four FM and three AM) and seven radio stations in Mindanao (five FM and two AM). The Company's FM stations primarily broadcast music and entertainment programs while the AM stations primarily broadcast news and public affairs programs. Each radio station has its own production facilities as the majority of the radio programming is local in nature and is often in the local dialect or language.

RGMA, an affiliate of the Company provides general management programming and research and event management services for the Company's radio stations. To maximize RGMA's nationwide presence, RGMA was assigned by GMA to also assist in the operation of the Company's television relay transmitter sites all over the Philippines. RGMA was granted its own Congressional franchise under R.A. 860 which authorizes it to own and operate radio and television stations. RGMA receives a management fee for its services. The Company currently owns a 48.5% equity interest in RGMA, pursuant to a conversion of advances in the amount of ₱168 million.

The marketing and sale of advertising spots on the Company's radio stations is conducted by GMA Marketing. The Company's commercial advertisers for radio are substantially the same as the Company's commercial advertisers for television, given that national advertisers comprise the vast majority of the advertising on the radio stations. In the year ended December 31, 2006, the top 10 radio advertisers accounted for approximately 48% of gross air time revenue from radio broadcasting. See "— Sales and Marketing".

The Company has re-branded its flagship DWLS-FM station as "Barangay LS". This radio station now broadcasts comedic segments in between presenting pop music hits. The Company decided to reformat the radio station as a result of an extensive study and research on market trends.

Subsidiaries and Affiliates

The Company also engages in the following media-related businesses which complement its core television and radio broadcasting business through its wholly-owned subsidiaries and affiliates. The following table shows the Company's holdings in its principal subsidiaries and affiliates as at March 31, 2007:

Subsidiaries and Affiliates	Ownership	Principal Activities
Subsidiaries		
GMA New Media, Inc.	100%	Converging technology.
Citynet Network Marketing and Productions, Inc.	100%	Television entertainment production.
GMA Network Films, Inc.	100%	Film production.
GMA Worldwide (Philippines), Inc.	100%	International marketing, handling foreign program acquisitions and international syndication of the Company's programs.
RGMA Marketing and Productions, Inc. ("GMA Records")	100%	Music recording, publishing and video distribution.
Scenarios, Inc.	100%	Design, construction and maintenance of sets for TV, stage plays and concerts.
Alta Productions Group, Inc.	100%	Pre- and post-production services.
GMA Marketing & Productions, Inc.	100%	Exclusive marketing and sales arm of the Company's commercial airtime.
Mediamerge Corporation	100%(1)	Business development and operations for the Company's online publishing/advertising initiatives
Affiliates		
INQ7 Interactive, Inc.	50.0%	A joint multimedia news and information delivery company of the Philippine Daily Inquirer Inc. and the Company.
Philippine Entertainment Portal, Inc.	50.0%	Operation of Pep.ph, an entertainment portal.
Mont-Aire Realty and Development Corporation(2)	49.0%	A real estate holding company.
RGMA Network, Inc.	48.5%	General management programming, research and event management services for the Company's radio stations.

(1) Indirectly owned through GMA New Media, Inc.

(2) On April 26, 2007, the Company's Board of Directors declared its shareholdings in Mont-Aire as subject to sale to any interested buyer. In the event the Company does not find a willing buyer, the same shall be declared as dividends to the stockholders of record as of April 26, 2007.

On June 13, 2006, the Company's Board of Directors resolved to declare cash and property dividends in the amount of ₱1.15 million from its retained earnings as at February 28, 2006, to be paid to stockholders of record. It was further resolved, that certain stockholders be paid a portion of their share of the declared dividends through property. In this regard, the Film Experts, Inc. shares owned by the Company with a noted value of ₱7,422,614 would be distributed to Group Management & Development, Inc.; and the Image One shares owned by the Company with a noted value of ₱1,602,594 would be distributed to M.A. Jimenez Enterprises, Inc. The foregoing property dividend distributions are still pending approval of the SEC.

Subsidiaries

GMA New Media, Inc. (Converging Technology). GMA New Media, established in July 2000, enables various media formats, such as the Internet, mobile phones, radio and television, to interact with each other. On the Internet, GMA New Media also engages in web development and creative services, and was one of the first SMS content subscription services in the Philippines to provide offerings such as horoscopes and love advice. In addition, GMA New Media has recently launched several websites, including GMANews.tv, the official website of GMA News and Public Affairs, iGMA.tv, the official website of the GMA Network, and, in partnership with Summit Media, Pep.ph, or the Philippine Entertainment Portal, the first and only portal in the Philippines dedicated to entertainment news. These websites are currently managed by Mediamerge Corporation, a wholly-owned subsidiary of GMA New Media, which is engaged in online publishing, digital asset management and internet advertising. For mobile phones, GMA New Media produces value-added services relating to the Company's television programs, such as ringtone downloads, television content downloads through SMS and WAP, information services relating to GMA artists. GMA New Media was also the first provider in the Philippines to offer 3G wireless streaming services, in partnership with a local telecommunications provider. GMA New Media plans to provide the same mobile and TV subscriptions offered to the domestic market to Filipinos in other countries, including Japan, Korea, Hong Kong, the United States, Canada and the United Arab Emirates. For television, GMA New Media helps to produce the Company's fully interactive television programming by providing services such as audience polling through SMS. GMA New Media also provides digital TV through its Internet TV and Internet Protocol TV offerings. These technologies allow global audiences to have access to GMA content and to select specific content according to their preferences. In addition, GMA New Media launched its own interactive TV shows such as Txtube and GroupeeTV where viewers can meet friends and chat. In 2006, revenues from GMA New Media contributed approximately ₱100.2 million, or 0.91% to the Company's total revenues.

Citynet Network Marketing and Productions, Inc. (Television Entertainment Production). Citynet was established in 1997 to engage primarily in the business of television production. Citynet was used by the Company as a vehicle for it to enter into an agreement with Zoe Broadcasting, Inc. for the programming of *Qtv*.

GMA Network Films, Inc. (Movie Production). GMA Films was established in August 1995 to produce movies that cater to both the local and international markets. Its movie productions have reaped both critical acclaim and commercial success. GMA Films is repositioning itself to significantly complement the Company's programming requirements and talent development initiatives. In 2006, revenues from GMA Films contributed approximately ₱81.7 million, or 0.74% to the Company's total revenues.

GMA Worldwide (Philippines), Inc. (Foreign Program Acquisitions and International Distribution). GWI was incorporated in February 1996 and handles the Company's foreign program acquisitions and the international distribution of the Company's programs. For more information, see "— Television Business — *GMA Pinoy TV*" and "— Television Business — Syndication Sales."

RGMA Marketing and Productions, Inc. (Recording). GMA Records was incorporated in September 1997 and became operational in 2004 after the Company decided to reactivate its musical recording business through the "GMA Records" label. Since re-opening its operations, GMA Records has leveraged the Company's talent and media resources and released 28 audio albums by 16 contract artists with eight new albums scheduled for release in 2007. In addition, GMA Records is partnering with sister-company GMA Films in the home video market to release its films. Eight videos are scheduled for release in 2007, including re-issues of movies from GMA Films and the Company's television series. GMA Records also publishes music and administers copyrights on behalf of composers. GMA Records is also working with GMA New Media to take advantage of new revenue streams, particularly in the emerging market of digital music downloads. GMA Records is actively pursuing publishing deals, building on its current catalog of close to 100 original compositions. GMA Records also serves as a clearing house and a source of music for the Company's television and film productions. In 2006, revenues from GMA Records contributed approximately ₱24.6 million, or 0.22% to the Company's total revenues.

Scenarios, Inc. (Stage Design). Scenarios, Inc. was incorporated in July 1996 and is engaged in the design, construction, transport and maintenance of sets for television programs, stage plays and concerts. It also provides basic to prosthetic level make-up services as well as wardrobes for hosts, guests, and talents of locally-produced programs. In September 2003, Scenarios, Inc. introduced a new transportation, hauling and trucking service to further fulfil the needs of its clients.

Alta Productions Group, Inc. (Audiovisual Production). Alta Productions was established in 1988 and is an audiovisual production company that provides clients with unique and effective communications materials, produces corporate training videos and television programs and provides staging services. Alta Productions operates as an independent production facility providing both pre- and post-production services to the Company's television network as well as other clients. Alta Productions also provides services to other clients, including the production of programs for other television channels, on-ground stagings and special events, television video commercial production, promo plug production, audio visual presentations, training video production and other related productions to both advertising agencies and direct clients. Alta Productions is also engaged in web-based design, interactive CD-ROM products, and other innovative digital applications. Alta has expanded and upgraded its audio facilities to accommodate the growing demand for foreign broadcast programs dubbed into local languages. In 2006, revenues from Alta Productions contributed approximately ₱7.6 million, or 0.07% to the Company's total revenues.

GMA Marketing & Productions, Inc. (Marketing and Sales of Commercial Airtime). GMA Marketing was established in August 1980 and is the exclusive marketing and sales arm for the Company's commercial television and radio airtime. For more information, see " — Advertising" and " — Marketing and Sales".

Affiliates

INQ7 Interactive, Inc. (Multimedia News and Information Delivery). INQ7 Interactive, Inc. is the joint online multimedia news and information delivery company of the Philippine Daily Inquirer Inc. and the Company. The Company owns 50.0% of INQ7 Interactive, Inc. Its website, www.INQ7.net, serves as the portal website for the news websites of the Company and the Philippine Daily Inquirer. See "Security Ownership of Certain Record and Beneficial Owners — Certain Relationships and Related Transactions".

Mont-Aire Realty and Development Corporation. Mont-Aire is currently 49.0% owned by the Company, and is organized as a real estate holding company. On April 26, 2007, the Company's Board of Directors declared its shareholdings in Mont-Aire as subject to sale to any interested buyer. In the event the Company does not find a willing buyer, the same shall be declared as dividends to the stockholders of record as of April 26, 2007.

RGMA Network, Inc. RGMA is 48.5%-owned by the Company and provides general management programming, research and event management services for the Company's radio stations.

Competition

The Company is a leading television and radio broadcasting company in the Philippines. The Company currently competes for audiences and advertising revenues directly with other broadcasting stations, radio stations, newspapers, magazines, cable television and outdoor advertising within their respective markets. The television broadcasting industry is continuously faced with changes in technology and innovations in programming, the possible rise in popularity of competing entertainment and communications media and governmental restrictions or actions of regulatory bodies.

The Company's closest competitor in the Philippines is ABS-CBN. Both networks target a general audience with a mixture of family entertainment, news, drama and general programming. Other key networks in the Philippines include the Associated Broadcasting Company and the state-owned RPN, IBC and NBN networks, which have distant audience share and ratings relative to Channel 7 and ABS-CBN, which attract 42.1% and 32.2%, respectively, of Total Day household audience shares in Mega Manila. The following table presents details of the Company's key competitors in the Philippines:

Network	Description	Ratings and Audience Share (2006)
ABS-CBN	— ABS-CBN Broadcasting Corporation (PSE: ABS) is a radio and television broadcasting network and multimedia company in the Philippines. It was founded in 1953, and is the first television station in the Philippines. — The network's main broadcast facilities are located at the ABS-CBN Broadcast Center in Mother Ignacia St., Diliman, Quezon City.	— 13.4% Household Ratings — 32.2% Audience Share
Associated Broadcasting Company	— Associated Broadcasting Company (ABC) is a Philippine television network, with main broadcast facilities in Novaliches, Quezon City, Metro Manila. It is the third-oldest television network in the country. It is currently owned by businessman Antonio Cojuangco. Its main station is DWET-5 (ABC-5) in Metro Manila.	— 1.3% Household Ratings — 3.1% Audience Share
Intercontinental Broadcasting Corporation	— Intercontinental Broadcasting Corporation (IBC-13) is a VHF Television Station of the Government Communications Group headed by the Press Secretary. It was launched in 1975 by a Marcos crony Roberto Benedicto after sequestering the original channel 13 owned by the late Andres Soriano. — After the 1986 EDSA Revolution, all of the stocks and assets of IBC-13, RPN-9 and BBC-2 were sequestered by the Philippine Commission on Good Government (PCGG). President Corazon Aquino awarded BBC-2 through an executive order to ABS-CBN Broadcasting Corporation. IBC-13 and RPN-9 were turned over to the Government Communications Group. IBC 13 studios are located at Broadcast City Capitol Hills Diliman, Quezon City and transmitter at San Francisco Del Monte, Quezon City.	— 0.3% Household Ratings — 0.7% Audience Share
National Broadcasting Network	— National Broadcasting Network is the official government TV station in the Philippines. It was formerly called the Maharlika Broadcasting System, Inc. and later the People's Television Network, Inc. (PTV). NBN studios and transmitter are located at Broadcast Complex, Visayas Avenue, Diliman, Quezon City with the power of 40,000 watts. The official slogan of the station is: One People, One Nation, One Vision.	— 0.3% Household Ratings — 0.7% Audience Share
Radio Philippines Network	— Radio Philippines Network (RPN 9) is a Philippines VHF television network of the Government Communications Group headed by the Press Secretary. RPN launched in the late 1960s as Kanlaon Broadcasting System, under Roberto S. Benedicto. After President Ferdinand Marcos sequestered the rights of CBN-9 of Eugenio Lopez, Sr., he awarded the Channel 9 frequency through a Presidential Decree.	— 1.0% Household Ratings — 2.4% Audience Share

Note: Displays Total Day Household Ratings and Audience Share in Mega Manila for 2006
Source: Nielsen Media Research and AGBNMR Phils.

Other Broadcasting Companies and Programming

The principal source of competition the Company faces arises from competing broadcasters gaining market share in relation to the number of viewers and the Company's share of advertising revenues received. There are currently seven free-to-air VHF terrestrial broadcasters operating in the Philippines. Of these broadcasters, ABS-CBN represents the Company's key competitor in terms of audience share, market share and program ratings. The Company competes primarily on the basis of program popularity, which has a direct effect on advertising rates. The Company's in-house programming must constantly evolve and innovate to produce programs with broad popular appeal. The Company may face increased competition in the future from the success of programs on competing stations and competitors deploying greater resources into producing and promoting their programs. Competition for programming also involves negotiating with national program distributors or syndicators which sell first-run and rerun packages of programming. The Company competes against other broadcast stations in their market for the exclusive right to broadcast off-network reruns and first-run product and also competes with other syndicators in the distribution of its programs in other markets. Cable systems generally do not compete with local stations for programming, although various national cable networks have acquired programs that would have otherwise been offered in syndication to local television stations.

Cable Television

The development of methods of transmission of video programming other than free-to-air television broadcasting, and in particular the growth of cable television, have significantly altered competition for audience in the television industry. These other transmission methods increase competition for a broadcasting station by bringing into its market distant broadcasting signals not otherwise available off-the-air to the station's audience and also by serving as a distribution system for non-broadcast programming distributed by the cable system.

Other Advertising Media

The Company competes for local advertising revenues with other television stations in their respective markets, as well as with other advertising media, such as newspapers, radio, magazines, outdoor advertising, transit advertising, yellow page directories, direct mail and local cable systems. Competition for advertising revenues in the broadcasting industry occurs primarily in individual markets. Generally, a television station in a market does not compete with stations in other market areas for local revenue.

International Competition

Internationally, *GMA Pinoy TV* competes with cable programming services for distribution to viewers, and competes for viewers with other forms of programming provided to cable, satellite and direct-to-home subscribers, such as broadcast networks and local over-the-air television stations, home video viewership, movie theaters and all other forms of audio/visual entertainment, news and information services.

Talents and Employees

Talents

As at March 31, 2007, the Company engaged approximately 2,621 talents under talent contracts. Those categorized as talents included both on-air performers and off-air writers, directors, producers and other staff, serving Channel 7, *Qtv* and *GMA Pinoy TV*. As at December 31, 2004, 2005 and 2006 and March 31, 2007, the talents were categorized as follows:

	December 31,			March 31,
Category	2004	2005	2006	2007
Mega Manila				
Entertainment	963	1,356	1,334	1,475
News and Public Affairs	521	657	651	692
Technical Operations	87	140	261	261
Radio Operations	83	63	87	74
Cebu	34	41	33	32
Iloilo	34	54	47	46
Davao	31	54	43	41
Total	1,753	2,365	2,456	2,621

As at March 31, 2007, 110 of these talents are Artists managed by GMAAC, as described above. A typical talent enters into a talent contract with the Company, with standard terms of two years, with the form of such contract differing as to what department the talent renders services in. Common provisions include:

- An express disclaimer that the talent is not an employee of the Company, with the talent also agreeing that he/she is an independent contractor not entitled to any rights and benefits granted to regular employees of the Company other than those specifically provided in the Agreement;

- An irrevocable and exclusive option granted to the Company to renew the talent contract under mutual terms and conditions; and

- The option granted to the Company to terminate the agreement at any time provided 30 days' prior written notice is furnished to the talent.

Apart from these general provisions in the specific talent contracts, there are also provisions specific to different types of talents: talent contracts for entertainers may provide that they may be assigned to different shows or productions by the Company, or be required to render services at specified Company corporate events; while talent contracts for the news and public affairs department may provide that the talent may not engage in any partisan political activity for the duration of the talent relationship. The fees and durations of the talent agreements also vary according to numerous factors, such as the reputation or popularity of the talent, and the expertise required in carrying out the specific service contracted for. The Company retains its talents, for example, by ensuring that their artistic and performing talents are afforded the proper exposure and steady opportunities in television, music, or other performance venues through the Company's subsidiaries, such as GMA Records or GMA Films.

In the recent Supreme Court cases of ABS-CBN Broadcasting Corp. v. Marquez, et al., G.R. No. 167638, promulgated on June 22, 2005, and ABS-CBN Broadcasting Corp. v. Nazareno, et al., G.R. No. 164156, promulgated on September 26, 2006, individuals hired by a television network as "talents" were held to be regular employees entitled to benefits and security of tenure under the law. These cases involved the employment of "program employees", such as production assistants, camera operators and other production crew members, hired to render services for a specific program broadcast by the network. Notwithstanding the fact that these individuals were hired as "talents", the Supreme Court ruled that the talents were not independent contractors and that such individuals were in fact, regular employees of the network. Thus, there is a risk that production assistants or other members of a production crew hired by the Company may be regarded as regular employees of the Company, where such individuals do not actually furnish an independent business or professional service, notwithstanding their designation as "talents".

Two recent Supreme Court decisions in June 2007, namely Thelma Dumpit-Murillo v. Court of Appeals, et al. and Consolidated Broadcasting Systems v. Oberio, et al., reaffirmed the earlier decisions and held that individuals hired under talent contracts or as piece rate contractors, respectively, were deemed to be regular employees and therefore entitled to all benefits to which regular employees are entitled. In Thelma Dumpit-Murillo v. Court of Appeals, et al., the Supreme Court came to its decision through the application of a "four-fold test" on employer-employee relations to determine whether the complainant was a regular employee, namely: (1) the selection and engagement of the employee, or the power to hire; (2) the payment of wages; (3) the power to dismiss; and (4) the power to control the employee. In Consolidated Broadcasting Systems v. Oberio, et al., the Supreme Court held that under Policy Instruction No. 40, an employer is obliged to execute contracts specifying the nature of the work to be performed, rates of pay, and programs in which they will work, and that, in this case, no contracts existed and thus, the talents should be deemed regular employees.

However, in a case decided by the NLRC, Nuevas et al. v. GMA Network, NLRC Case No. V-000630-06, promulgated on February 28, 2007, the NLRC ruled that the program hosts/performers and the set designer of a television variety show that was subsequently cancelled were not to be deemed regular employees but were "independent contractors", and that their engagement by the Company was only for the particular show for which they were hired.

Employees

As at March 31, 2007 the Company and its subsidiaries employed 2,303 persons on a permanent and contract basis:

Employees	As at December 31, 2004	As at December 31, 2005	As at December 31, 2006	As at March 31, 2007
Total	1,163	1,508	2,323	2,303

The Company plans to hire an additional 168 employees by the end of 2007, including 30 for administrative work and 138 for operational work.

Of the 565 union-eligible employees, 483 were members of the GMA Channel 7 Employees' Union. The Company entered into a collective bargaining agreement covering the Company's unionized employees from June 30, 2004 to June 30, 2009. On June 29, 2007, the parties agreed to revise the economic terms of the collective bargaining agreement. The new terms will go into effect on July 1, 2007. The Company believes it maintains good labor relations and employment policies.

Intellectual Property

The Company takes steps to protect all of its copyrighted work, including all of the original programs it produces, by relying on a combination of contractual rights and patent, copyright and trademark laws to establish and protect proprietary rights in its programming. Copies of all pilot episodes of the Company's programs are deposited with the National Library, in conformity with the Intellectual Property Code. The act of depositing the pilot episodes with the National Library, and the actual broadcast of the programs, effectively gives notice that the program is owned by the Company. In addition, all programs bear copyright notices on their closing billboards. Further, all of the Company's trademarks and service marks are registered with, or have applications pending for registration with, the Philippine Intellectual Property Office. The Company also has an application pending with the United States Patent and Trademark Office for its *GMA Pinoy TV* trademark which was published in the Official Gazette of the United States Patent and Trademark Office on May 8, 2007. From time to time, the Company sues to protect its work and in turn is sued.

The Company currently has eight trademark applications pending with the Intellectual Property Office, namely:

Title	Date of Application
Arn Arn	May 14, 2002
Debate with Mare and Pare	February 20, 2004
GMA Kapuso TV Logo and Design	October 24, 2002
GMA Pinoy TV	October 28, 2004
Marinara	May 24, 2004
Mobile Kusina	March 2, 2005
Mulawin	July 7, 2004
Tag Line — Kapuso ng Bawat Pilipino Anumang Kulay ng Buhay	June 15, 2005

Insurance

The Company maintains a sound insurance program for its growing asset base. In order to manage the risks associated with its assets, it has instituted operational risk management measures and insurance policies that are jointly developed with Aon Philippines, Inc., which is a wholly owned subsidiary of Aon Corporation, the world's leading retail and insurance broker.

The Company's insurance is placed with financially secure local and international underwriters. The Company's insurance policies are periodically reviewed and updated relative to changes in the Company's risk exposures as well as to the changing landscape of risks that could affect the company's operations. The Company's policies are as follows:

- Commercial All-Risk Policy which provides comprehensive/broad coverage against damages and losses to the Company's property such as the Network Center, transmitter facilities in all locations, all broadcast and satellite/electronic news gathering vans, satellite uplinks, studios, and all broadcast equipment in all locations nationwide;

- Electrical and Electronic Insurance Policy which provides coverage for all Electronic News Gathering cameras and accessories under the custody of individual cameramen or teams;

- Motor Car Fleet Policy which provides coverage for all company-owned transportation vehicles;

- Commercial General Liability Policy which provides coverage for claims against the Company from third parties as a result of accidental injury to, loss or damage to property of third parties arising out of the Company's operations; and

- Marine Open Policy covering properties in transit.

Legal Proceedings

The Company and its subsidiaries are involved, from time to time, as plaintiff or defendant in litigation arising from transactions undertaken in the ordinary course of its business. Described below are the pending material litigation of which the Company and its subsidiaries or their properties are subject. The Company believes that a judgment rendered against it in the cases indicated below will not have a material adverse effect on its operations or financial condition.

None of the Company's affiliates, or their property, as described in the Prospectus, namely, RGMA, INQ7 Interactive, Inc., Philippine Entertainment Portal, Inc. and Mont-Aire, are involved in any material pending litigation as at December 31, 2006.

Tax Cases

The Company filed a Petition for Review on September 22, 2004 against the Commissioner of Internal Revenue to dispute its assessment for deficiency taxes for the year 2000 in the total amount of ₱18.8 million based on the alleged failure by the Company to remit and withhold Value Added Tax due on income payments to foreign suppliers and for deficiency in final withholding taxes, failure to pay withholding tax on dividends and interest thereon and failure to pay in full the interest on withholding tax deficiency on payment of interest on foreign loans. The Company raised the defense of prescription, arguing that the dividends declared to individuals in the year 2000 came from retained earnings for the year 1997. The Company also argued that it had already paid its liability for the alleged deficiency for withholding tax on payments to foreign companies on program rights and deficiency for final withholding tax on interest and foreign loans.

The Company is presently awaiting the decision of the Court of Tax Appeals.

There is a pending criminal case in the Office of the City Prosecutor for violation of Sections 5 and 14 of the Tax Reform Act of 1997 for the alleged failure of Scenarios, Inc. to submit corporate books of account and other accounting records. The case has already been submitted for decision.

Labor Cases

On March 21, 2002, Dan Albert De Padua filed a complaint against the Company and Felipe L. Gozon with the NLRC, alleging constructive and illegal dismissal by the Company and claiming reinstatement, damages and attorney's fees, in the amount of ₱26 million and 25% of the judgment award. At the time of his dismissal, Mr. De Padua was the Vice-President of the Company for Network Operations and Programming. The Labor Arbiter and the NLRC dismissed the complaint. The case is currently pending before the Court of Appeals.

There is a pending case for illegal dismissal filed by Jelly Vinluan against Scenarios, Inc. On April 26, 2001, a judgment was rendered by Labor Arbiter Salimathar V. Nambi in favor of Mr. Vinluan ordering Scenarios, Inc. to pay him the amount of ₱119,190.37 representing back wages, separation pay, salary differential, service incentive leave pay, and 13th-month pay. Scenarios, Inc. only learned of the case when the sheriff of the NLRC served the writ of execution issued therein. As such, Scenarios, Inc. immediately filed a notice and memorandum of appeal, a motion to quash and/or recall writ of execution, and an urgent motion to lift the order of garnishment.

There is another pending case for illegal dismissal, unfair labor practices, non-payment of overtime pay, holiday pay, premium pay for holiday and rest day and night shift differential and service incentive leave pay filed by Carlos Pabriga, Geoffrey Arias, Kirby Campo, Arnold Lagahit and Armand Catibug. The complainants were engaged on various dates from 1993 to 1997 to replace regular employees of the Company's Cebu station who were on leave or otherwise unable to work. On August 24, 2000, the Labor Arbiter dismissed the complaints for illegal dismissal and unfair labor practices, but directed the Company to pay complainants their proportionate 13th-month pay. On appeal by the complainants, the NLRC held in a decision dated July 18, 2002 that the complainants were regular employees with respect to the particular activity they were assigned until the activity ceased to exist and that they were entitled to separation pay, 13th-month pay, night shift differential and service incentive leave pay. The complainants claim that by virtue of this ruling, they are entitled to payment of a total of approximately ₱1.5 million as of March 2007. The Company's petition for review of the NLRC decision was denied by the Court of Appeals on September 8, 2006. The case is presently pending before the Supreme Court on appeal by certiorari of the Company.

Infringement Cases

The Company's officers, Felipe L. Gozon, Gilberto R. Duavit, Jr., Marissa L. Flores, Jessica A. Soho, Grace dela Pena-Reyes, John Oliver Manalastas, John Does and Jane Does were named as respondents in a criminal case initiated in June 2004 for copyright infringement before the City Prosecutor's Office of Quezon City and the Department of Justice ("DOJ"). The case was subsequently consolidated with the Company's counter charge for libel.

The respondents were charged in their capacities as corporate officers and employees of the Company responsible for the unauthorized airing of ABS-CBN's exclusive live coverage of the arrival in the Philippines of Angelo de la Cruz, a Filipino overseas worker previously held hostage in Iraq. Aside from seeking to hold the named respondents criminally liable for infringement and unfair competition, ABS-CBN sought damages from the respondents jointly and severally in the aggregate amount of ₽200 million.

On July 27, 2004, the Company and certain of its officers filed a case for libel against certain officers of ABS-CBN for statements made in their programs Insider and Magandang Umaga Bayan relative to the incident involving the de la Cruz feed. The Company also seeks damages in the aggregate amount of ₽100 million.

In a resolution dated December 3, 2004, the DOJ dismissed the complaint for libel against the ABS-CBN officers and employees and dropped the charges against the Company's officers except for Ms. dela Pena-Reyes and Mr. Manalastas against whom the DOJ found probable cause for violation of the Intellectual Property Code. ABS-CBN filed a motion for partial reconsideration of the resolution on the grounds that the other named respondents were erroneously exonerated. The Company filed a petition for review with the DOJ with respect to the finding of probable cause against Ms. dela Pena-Reyes and Mr. Manalastas and the dismissal of the case for libel. In a resolution dated September 15, 2005, with respect to the charge for libel, DOJ Secretary Gonzalez denied the Company's petition for review. The Company filed a motion for reconsideration which is still pending with the DOJ. In a resolution dated August 1, 2005, with respect to the charge for infringement, DOJ Secretary Gonzalez granted the Company's petition for review and ordered the dismissal of the criminal charges against Ms. dela Pena-Reyes and Mr. Manalastas. ABS-CBN filed a motion for reconsideration which is still pending with the DOJ.

Libel Cases

A complaint for libel against Miguel Enriquez, as well as an action for ₽20 million in civil damages against the Company, Miguel Enriquez, and several others, was filed by Robert Lyndon Barbers, et al., for showing of an episode of the program Imbestigador, concerning the widespread sale of kidneys in Siargao Island. The complainants alleged that they were made the subject of various malicious imputations of wrongdoing in the episode in question. The complainants seek damages in the amount of ₽15 million for the malicious imputations; ₽2 million in moral damages; ₽2 million in exemplary damages; and ₽1 million in attorney's fees and expenses of litigation.

The criminal case has been provisionally dismissed, although Mr. Barbers filed a motion to revive which has been opposed by the Company's counsel.

Mediation proceedings for the civil aspect of the case have failed and the pre-trial was held on March 8, 2007. The case is still currently pending before the Regional Trial Court of Quezon City.

MANAGEMENT AND CERTAIN SHAREHOLDERS

Board of Directors, Officers and Senior Management

Under the Articles of Incorporation of the Company, the Board of Directors of the Company comprises nine directors, two of whom are independent, and is responsible for the overall management and direction of the Company. As of the date of this Prospectus, the Company's Board of Directors has eight directors, one of whom is independent. The Board of Directors meets regularly every quarter and other times as necessary, to be provided with updates on the business of the Company and consulted on the Company's material decisions. The directors have a term of one year and are elected annually at the Company's stockholders meeting. A director who was elected to fill a vacancy holds the office only for the unexpired term of his predecessor. As at the date of this Prospectus, the Company's Board of Directors and Senior Management were composed of:

		Board of Directors		Senior Management		
Directors and Senior Management	Nationality	Position	Year Position was Assumed	Position	Year Position was Assumed	Age
Felipe L. Gozon	Filipino	Chairman/Director	1975	President/Chief Executive Officer	2000	67
Judith D. Vazquez	Filipino	Director	1998	N/A	N/A	44
Gilberto R. Duavit, Jr.	Filipino	Director	1999	Executive Vice President/Chief Operating Officer	2000	43
Anna Teresa M. Gozon-Abrogar	Filipino	Director/Assistant Corporate Secretary	2000	N/A	N/A	35
Joel Marcelo G. Jimenez	Filipino	Director	2002	N/A	N/A	42
Laura J. Westfall	Filipino	Director	2002	N/A	N/A	39
Felipe S. Yalong	Filipino	Director/Corporate Treasurer	2002	Senior Vice President/Finance Group Head, Corporate Services Department	2001	50
Roberto O. Parel	Filipino	Corporate Secretary	1993	N/A	N/A	51
Wilma Valle Galvante	Filipino	N/A	N/A	Senior Vice President, Entertainment TV	2004	53
Marissa La Torre Flores	Filipino	N/A	N/A	Senior Vice President, News and Public Affairs	2004	42
Miguel Castro Enriquez	Filipino	N/A	N/A	Senior Vice President, Radio	1995	55
Artemio V. Panganiban	Filipino	Independent Director	2007	N/A	N/A	N/A

The following are descriptions of the business experience of each of the Company's directors, officers and senior management:

Felipe L. Gozon

Atty. Felipe L. Gozon obtained a Bachelor of Laws degree from the University of the Philippines and a Masters of Laws degree from Yale University. He is a partner in the law firm of Belo Gozon Elma Parel Asuncion & Lucila. As a distinguished aviation lawyer, he was a member of the Philippine Air Negotiating Panel and is cited in the Asia Pacific Legal 500 as a leading expert in this field. His business experience includes acting as a director of the International Corporate Bank and as Chairman of Marcopper Mining Corporation. Atty. Gozon has been the Chairman of the Board of Directors of the Company since 1975. He currently holds the positions of Chairman, President and Chief Executive Officer. Since assuming leadership of the Company in October 2000, the Company's ratings have improved greatly, surpassing its nearest competitor in 2003. Atty. Gozon was named CEO of the Year by UNO Magazine in 2004 and Master Entrepreneur of the Year (Philippines) 2004 by SGV/Ernst & Young in 2005. People Asia Magazine included him in the list of People of the Year 2005. He is also currently Chairman, Vice-Chairman or director of several other institutions such as the Malayan Bank Savings & Mortgage Bank, the Children's Museum and Library, Inc., the Asian Institute of Journalism and Communication and the Nova Foundation for Differently Abled Persons, Inc. He is also a director and/or Chairman of some of the subsidiaries and affiliates of the Company, such as GMA New Media, GMA Films, Alta Productions, Citynet, GMA Marketing and Productions, Inc., Scenarios, Inc., GWI, EMC Network, Inc., GMA Kapuso Foundation, Inc., INQ7 Interactive, Inc., GMA Records and Mont-Aire.

Gilberto R. Duavit, Jr.

Mr. Gilberto R. Duavit, Jr. is the Executive Vice President and Chief Operating Officer of the Company. He was elected a director in 1999 and is the Chairman of the Company's Executive Committee. He concurrently oversees key areas of the Company's operations and is the Officer-in-Charge of the consolidated Engineering Group. As the Executive Vice President and COO, he implements strategies that enable the Company to meet aggressive growth targets amidst increasing competition. Mr. Duavit holds a bachelor's degree in philosophy from the University of the Philippines. A film enthusiast, he is the Chairman of GMA Films and co-producer of the internationally acclaimed feature films *Jose Rizal*, *Muro Ami* and *Sa Puso ng Dagat*. He produced two other notable features for television: *Kamada* and *Liwanag ng Hatinggabi*, as well as the popular Prime Time drama series *Ang Ibigin ay Ikaw*. Mr. Duavit was formerly the President and CEO of GWI. He has also served as the President and CEO of Film Experts, Inc. since 1993, President and CEO of Scenarios, Inc. since 2001 and President of GMA Kapuso Foundation, Inc. since 2001, among others.

Judith D. Vazquez

Ms. Judith D. Vazquez holds a Bachelor of Science degree in business economics from the University of the Philippines and is an alumna of Harvard Business School. She has been a director of the Company since 1998. She developed the first intelligent building called "The Peak", which is the premier interconnection site for 22 telecommunications companies on four platforms: fixed-line fiber, cable, wireless and satellite. It is the core of the Moscom Network - the largest conglomeration of Internet Service Providers in the Philippines with a total reach of over 80 points of presence across the Philippines. In 2000 she founded mod.net.ph, ("Modnet") a leader in Internet security. Its clientele includes among others, the Philippine National Police.

Anna-Teresa M. Gozon-Abrogar

Atty. Anna Teresa M. Gozon-Abrogar graduated cum laude, with a Bachelor of Science degree in management engineering from Ateneo de Manila University and obtained a Bachelor of Laws degree from the University of the Philippines where she graduated valedictorian, cum laude. She later obtained a Master of Laws degree from Harvard University. She is a junior partner in the law firm of Belo Gozon Elma Parel Asuncion & Lucila and an Associate Professor at the University of the Philippines, College of Law where she taught taxation law. Atty. Anna Teresa M. Gozon-Abrogar became a director of the Company and GMA New Media in 2000. She became President of GMA Films in 2004 and continues to hold this position. In addition to the foregoing she is currently a director and Corporate Secretary of Mont-Aire, and President of GWI.

Joel Marcelo G. Jimenez

Mr. Joel G. Jimenez was educated in Los Angeles, California where he obtained a bachelor's degree in business administration from Loyola Marymount University. He also obtained a master's degree in management from the Asian Institute of Management. He has been CEO of Alta Productions since 1993 and Chairman and CEO of Image One Multi Media Corporation since 1997. In addition to the foregoing, he holds the position of director in other companies, including Malayan Savings and Mortgage Bank and Unicapital Securities, Inc. Mr. Jimenez has been a director of the Company since 2002.

Laura J. Westfall

Mrs. Laura J. Westfall was educated at the University of Southern California where she obtained a Bachelor of Science degree in accounting. She later obtained a master's degree in public and private management from Yale University. She was formerly Senior Vice President of Finance and Senior Vice President of Corporate Strategic Planning for the Company. In addition, she formerly held the position of President of GMA New Media. Currently, she is employed by BDO Seidman, International Management and Consulting Firm. Mrs. Westfall has been a director of the Company since 2002.

Felipe S. Yalong

Mr. Felipe S. Yalong obtained a Bachelor of Science degree in business and accounting from the Philippine School of Business Administration and completed the Management Development Program at the Asian Institute of Management. He was formerly an auditor with SyCip, Gorres and Velayo Co. and the Group Comptroller of the National Transport Group. He was formerly Senior Vice-President of the Corporate Service Group of ABS-CBN from 1987 to 1997 before transferring to the Company. Mr. Yalong also serves as a director and Corporate Treasurer for GMA Holdings, Inc. He additionally serves as an Executive Vice President for GMA Records, and as Corporate Treasurer for several other corporations, including Scenarios, Inc., GMA Films, RGMA Network, Inc. and Digital Kitchen, Inc. He is also a member of the board of GMA Marketing, Unicapital, Inc. and Majalco Finance and Investments, Inc. Mr. Yalong has been a director of the Company since 2002.

Roberto O. Parel

Atty. Roberto O. Parel graduated from the University of the Philippines with a Bachelor of Arts degree in philosophy and a Bachelor of Laws degree. He was admitted to the Philippine bar in 1981. Atty. Parel further pursued legal studies through short programs at the Center of American and International Law and the Southwestern Legal Foundation in Dallas, Texas. Later, he attended a training program on industrial property rights held by the Japan Institute of Invention and Innovation and the Association for Overseas Technical Scholarship in Tokyo, Japan. Atty. Parel is a partner in the law firm of Belo Gozon Elma Parel Asuncion & Lucila. His practice areas include labor relations, natural resources and intellectual property. Atty. Parel is a director of several corporations, including Time-Life International Philippines, Capitalex Holdings Philippines, and Rohm and Haas Philippines, Inc. Atty. Parel acts as the Corporate Secretary for several other corporations, including Alta Productions, GMA Kapuso Foundation, Inc., Scenarios, Inc., RGMA Network, Inc., Citynet Network Marketing and Production Inc., and EMC Network, Inc. He is also the Corporate Treasurer of Selenga Mining Corporation. Atty. Parel has been the Corporate Secretary of the Company since 1993.

Wilma Valle Galvante

Ms. Galvante obtained a bachelor's degree in communication arts, specializing in advertising and public relations and radio and TV production. She worked for RPN-9 as a radio and TV production manager before joining the Company as an executive producer. She has been working for the Company for 11 years and has been Senior Vice President for Entertainment TV since 2004.

Marissa La Torre Flores

Ms. Flores was educated at the University of the Philippines, where she studied journalism. From 1997 to 2001 she acted as Assistant Vice President for Public Affairs before becoming the Senior Vice President of the Company.

Miguel C. Enriquez

Mr. Enriquez earned a bachelor's degree in liberal arts and commerce from De La Salle University. He began his broadcasting career in 1969 as a radio staff announcer for the Manila Broadcasting Company. Since then, he has occupied a wide range of positions from program director to general manager. His last position before joining the Company was as Vice President for FM operations and a member of the board of directors of Radio Mindanao Network, one of the country's largest privately-owned radio networks. In addition to his executive functions, Mr. Enriquez also anchors 24 Oras, Channel 7's flagship newscast and Imbestigador, a highly-rated prime time investigative program. He also hosts an early morning news and current affairs program on the Company's flagship radio station, DZBB. He is the recipient of various broadcasting awards, both in the Philippines and abroad.

Artemio V. Panganiban

Chief Justice Panganiban obtained earned a bachelor's degree from the Far Eastern University. He later obtained a degree in law from the same institution, with cum laude honors. He was admitted to the bar in 1960, placing sixth in the bar examinations. In 1995 he was appointed Justice of the Supreme Court and held the position of Chief Justice from 2005 until his retirement in 2006.

Prior to entering public service, Chief Justice Panganiban practiced law from 1963-1995 with Panganiban Benitez Parlade Africa & Barinaga Law Office where he was a senior partner. He was President of several corporations, including Baron Travel Corporation from 1967 to 1993, Arpan Tourism Industries Corporation from 1974 to 1993 and the Philippine Daily Inquirer, Inc. from 1991 to 1992. Chief Justice Panganiban was President of the Tourism Organization of the Philippines from 1977 to 1986, the Philippine Society of Travel Agents from 1974 to 1976 and the Philippine Association of Tourist Transport Operators from 1979 to 1987 and Vice-President of the Philippine Chamber of Commerce and Industry from 1993 to 1995. Chief Justice Panganiban also acted as Director for certain corporations such as International Corporate Bank (then known as Continental Bank) which later merged with the Union Bank (1972-1974).

The directors and executive officers do not have any employment contracts, and are elected to their respective positions on a yearly basis. The Company has no compensatory plans or arrangements with respect to any executive officer that would result from the resignation, retirement or any other termination of such executive officer's employment. The Company is not dependent on any key personnel who are not executive officers.

Significant Employees

Although the Company and its key subsidiaries have relied on, and will continue to rely on, the individual and collective contributions of their executive officers and senior operational personnel, the Company and its key subsidiaries are not dependent on the services of any particular employee.

Family Relationships

Judith D. Vazquez is the sister of Gilberto R. Duavit, Jr., and Joel Marcelo G. Jimenez and Laura J. Westfall are siblings. Anna Teresa M. Gozon-Abrogar is the daughter of Felipe L. Gozon. Felipe L. Gozon's sister, Carolina L. Gozon Jimenez, is the mother of Joel Marcelo G. Jimenez and Laura J. Westfall.

Involvement in Certain Legal Proceedings

To the best of the Company's knowledge, during the past five years there has been no occurrence of any of the following events which are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer, or control person of the Company:

- Any filing of an insolvency or bankruptcy petition by or against any business of which such person was a general partner or executive officer, either at the time of the insolvency or within two years prior to that time;

- Any conviction by final judgment in a criminal proceeding, domestic or foreign, or any pending criminal proceeding, domestic or foreign, of any such person, excluding traffic violations and other minor offenses;

- Any final and executory order, judgment, or decree of any court of competent jurisdiction, domestic or foreign, against any such person, permanently or temporarily enjoining, barring, suspending, or otherwise limiting involvement in any type of business, securities, commodities, or banking activities; and

- Any final and executory judgment of any such person by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC, or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, for violation of a securities or commodities law.

Executive Committee

The Executive Committee consists of three members chosen from among the members of the Board, one of whom is appointed as Chairman of the Committee. The Committee, except as may otherwise be provided by law or by resolution of the Board of Directors, has and exercises all powers of the Board during the intervals between meetings of the full Board.

The Executive Committee prescribes rules for its government; its regular meetings are held monthly, and its special meetings are held at such date, time and place within or outside of the Philippines as it determines or authorizes, and a majority of the committee at any meeting shall constitute a quorum. Currently, the Executive Committee is composed of Atty. Gozon, Mr. Joel Jimenez and Mr. Gilbert R. Duavit, Jr. Mr. Duavit is the Chairman of the Committee.

Executive Compensation

The following are the Company's six most highly compensated executive officers:

Name and Position

Felipe L. Gozon	President, Chief Executive Officer
Gilberto R. Duavit	Executive Vice President, Chief Operating Officer
Felipe S. Yalong.......	Senior Vice President, Finance, Group Head, Corporate Services Group
Marissa L. Flores......	Senior Vice President, News and Public Affairs
Wilma V. Galvante.....	Senior Vice President, Entertainment TV
Miguel C. Enriquez	Senior Vice President, Radio

	Year	Salaries	Bonuses	Other Income	Total
	2004	₱20,477,500.00	₱11,676,751.52	—	₱32,154,251.52
CEO and the most	2005	₱46,445,939.00	₱30,002,172.00	—	₱76,448,111.00
highly compensated	2006	₱58,863,987.59	₱52,129,917.00	—	₱110,993,904.59
officers named	2007				
above	*(estimate)*	₱64,750,386.35	₱57,342,908.70	—	₱122,093,295.05
Aggregate	2004	₱38,353,129.21	₱19,937,350.89	—	₱58,290,480.10
compensation paid	2005	₱74,014,080.00	₱43,372,089.00	—	₱117,386,169.00
to all officers and	2006	₱94,976,258.58	₱66,060,131.20	—	₱161,036,389.78
directors as a group	2007				
unnamed	*(estimate)*	₱104,473,884.44	₱72,666,144.32	—	₱177,140,028.76

Employment Contracts, Termination of Employment, Change-In-Control Arrangements

Regular employment contracts do not contain non-compete provisions, or any provisions which require an employee to remain with the Company for a particular period of time. However, contracts for probationary employees contain a six-month non-compete provision.

The amended articles of incorporation and amended by-laws of the Company contain no provisions which may delay, defer or in any manner prevent a change in control of the Company.

Warrants and Options Outstanding

Employee Stock Ownership Plan

On April 26, 2007, the Company's Board of Directors and shareholders approved the Company's ESOP. The ESOP covers a maximum of 57 million shares from the unissued common shares of the Company to be made available to the Company's regular employees, talents and consultants.

A regular employee with at least three years of service with the Company can subscribe to a maximum number of shares equivalent to six times his monthly gross salary at the Offer Price. Employees with less than three years of service can subscribe to a maximum of three times his monthly gross salary at the Offer Price. The shares to be subscribed by the employee shall not be less than the minimum set by the Company. The subscription must be paid by at least 25% while the balance is payable over a maximum period of one and a half years in 36 equal semi-monthly instalments through payroll deductions without interest. In the case of talents and consultants, the number of shares allotted shall be determined by the Company.

The shares forming part of the ESOP are not subject to any lockup period.

Disclosure on Compliance with Leading Practices on Corporate Governance

The Company's Manual on Corporate Governance (the "Manual") was approved by the Board of Directors on April 10, 2006 and will be filed with the SEC after the Listing Date.

Independent Directors

The Manual requires the Company to have two independent directors in the Board of Directors, at least one of whom serves on each of the Company's Audit Committee, Nomination Committee and the Compensation and Remuneration Committee. An independent director is defined as a person other than an officer or employee of the corporation, its parents or subsidiaries, or any other individual having a relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Under the SEC Code of Corporate Governance, an independent director is required to attend board meetings for quorum requirements, unless he is duly notified of the meeting but with justifiable cause fails to attend the meeting. Justifiable causes may only include grave illness or death of immediate family and serious accidents.

Nomination Committee

The Nomination Committee is composed of three members, one of whom must be an independent director. It is responsible for ensuring that the selection of new members of the Board of Directors is transparent, with the ultimate objective of establishing a Board of Directors that will increase the value of the Company.

Compensation and Remuneration Committee

The Compensation and Remuneration Committee is composed of three members from the Board, one of whom should be an independent director. It is responsible for objectively recommending a formal and transparent framework for remuneration and evaluation of the members of the Board of Directors and key executives to enable them to run the Company successfully.

Audit Committee

The Audit Committee is made up of at least three members of the Board, with at least one independent director who acts as the committee chairman. It assists the Board of Directors in its fiduciary responsibilities by providing an independent and objective assurance to the Company's management and Shareholders in the form of continuous improvement of risk management systems and business operations and proper safeguarding and use of the Company's resources and assets. It provides general evaluations and gives assistance in the overall improvement of the risk management, control, and governance processes of the Company.

Compliance System

The Chairman of the Board is tasked with designating a Compliance Officer to insure adherence to corporate principles and best practices. The Compliance Officer holds the position of Vice President or its equivalent and reports directly to the Chairman of the Board. The Compliance Officer monitors compliance with the provisions and requirements of the Manuel of Corporate Governance.

SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS

As at the date of this Prospectus, the following persons owned at least 5% of the Company's outstanding Common and Preferred Shares:

Title of class	Name, Address of Record Owner and Relationship with Company	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percentage of Class
Common	Group Management & Development Incorporated[(1)]	The record owner is the beneficial owner of the shares indicated.	Filipino	1,094,085,545	35.01%
Common	FLG Management & Development Corporation[(2)]	The record owner is the beneficial owner of the shares indicated.	Filipino	908,778,295	29.08%
Common	M.A. Jimenez Enterprises, Inc.[(3)]	The record owner is the beneficial owner of the shares indicated.	Filipino	628,741,177	20.12%
Common	Television International Corporation[(3)]	The record owner is the beneficial owner of the shares indicated.	Filipino	463,192,338	14.82%
					99.03%
Total Common Shares					**3,125,000,000**
Preferred Shares.	Group Management & Development Incorporated	The record owner is the beneficial owner of the shares indicated.	Filipino	2,625,805,308	35.01%
Preferred Shares.	FLG Management & Development Corporation	The record owner is the beneficial owner of the shares indicated.	Filipino	2,181,067,908	29.08%
Preferred Shares.	M.A. Jimenez Enterprises, Inc.	The record owner is the beneficial owner of the shares indicated.	Filipino	1,508,978,826	20.12%
Preferred Shares.	Television International Corporation	The record owner is the beneficial owner of the shares indicated.	Filipino	1,111,661,610	14.82%
					99.03%
Total Preferred Shares					**7,500,000,000**

(1) 5 Wilson Street, Greenhills, San Juan, Metro Manila

(2) Unit 2, 2nd Floor, Building 2, 9th Avenue, Bonifacio Global City, Taguig, Metro Manila

(3) 2nd Floor, Sagittarius Condominium, H.V. dela Costa Street, Salcedo Village, Makati City

(4) 2nd Floor, Sagittarius Condominium, H.V. dela Costa Street, Salcedo Village, Makati City

Security Ownership of Management

As at the date of this Prospectus, the following is the security ownership of the directors and executive officers of the Company:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percentage of Class
Common. . . .	Anna-Teresa Gozon Abrogar	3 shares held in trust for FLG Management & Development Corporation	Filipino	
Common. . . .	Gilberto R. Duavit, Jr.	6 shares held in trust for Group Management and Development, Inc.	Filipino	
Common. . . .	Joel Marcelo G. Jimenez	3 shares are owned directly	Filipino	
Common. . . .	Laura J. Westfall	2 shares are owned directly	Filipino	
Common. . . .	Felipe S. Yalong	2 shares held in trust for FLG Management & Development Corporation	Filipino	
Common. . . .	Felipe L. Gozon	11,199 shares are owned directly	Filipino	
Common. . . .	Judith D. Vazquez	158 shares are owned directly	Filipino	
Common. . . .	Artemio Panganiban	1 share owned directly	Filipino	All own less than 0.01%
Preferred . . .	Anna-Teresa Gozon Abrogar	6 shares held in trust for FLG Management & Development Corporation	Filipino	
Preferred . . .	Gilberto R. Duavit, Jr.	12 shares held in trust for Group Management and Development, Inc.	Filipino	
Preferred . . .	Joel Marcelo G. Jimenez	6 shares are owned directly	Filipino	
Preferred . . .	Laura J. Westfall	6 shares are owned directly	Filipino	
Preferred . . .	Felipe S. Yalong	6 shares held in trust for FLG Management & Development Corporation	Filipino	
Preferred . . .	Felipe L. Gozon	26,880 shares are owned directly	Filipino	
Preferred . . .	Judith D. Vazquez	378 shares are owned directly	Filipino	

Voting Trust

The Company is unaware of any persons holding more than 5.0% of shares under a voting trust or similar agreement.

Change in Control

See the section entitled "Description of the Shares—Change in Control" on page 166 of this Prospectus.

Certain Relationships and Related Transactions

Advances to Affiliates

The Company has, from time to time, made advances to certain of its affiliates. The advances are non-interest bearing.

As at March 31, 2007, Alta Tierra Resources, Inc. had advances owing to the Company in the amount of ₱5.3 million. AltaTierra Resources, Inc. is a real estate holding company. As at the date hereof, Alta Tierra's outstanding shares are 8.2% owned by Majent Management and Development Corporation, and 91.8% by Group Management and Development, Inc.

As at December 31, 2006, the Company made advances to RGMA in the amount of ₱225.3 million for RGMA's working capital requirements. On February 21, 2006, the Company's Board of Directors approved the conversion of a portion of such advances in the amount of ₱168 million into 7,205,882 shares of RGMA with a par value of ₱1.00 per share, representing approximately 48.5% of the outstanding capital stock of RGMA. The SEC approved the conversion of the advances into equity on February 6, 2007. As at the date hereof, RGMA's outstanding shares are 48.5% owned by the Company, 17.8% owned by Rachel Espiritu, 17.8% owned by the Jimenez Family through Television International Corporation and 15.3% owned by the Gozon Family through FLG Management and Development Corporation. As at March 31, 2007, the Company has made further advances to RGMA in the amount of ₱59.2 million as advances for working capital.

The Company also made advances to Mont-Aire in the amount of approximately ₱121.4 million as at December 31, 2004. Of such advances, the Company converted the amount of ₱38.3 million into ₱38.3 million worth of common shares of Mont-Aire. Simultaneously, the other shareholders of Mont-Aire, namely, Group Management and Development, Inc., Television International Corporation and FLG Management and Development Corporation converted advances in the aggregate amount of ₱23.5 million made by them to Mont-Aire into ₱23.5 million worth of common shares of Mont-Aire. The SEC approved the conversion of the advances into equity on February 17, 2006. The Company owns 49.0% of Mont-Aire, with the remaining 51.0% being owned by the Duavit Family, Gozon Family and Jimenez Family. Mont-Aire is a real estate holding company whose principal property is a 5.3 hectare property located in Tagaytay, Cavite. Such property is not used in the broadcasting business of the Company. As at March 31, 2007, the Company has made advances to Mont-Aire in the amount of ₱84.7 million as advances for working capital.

The Company also made advances to Image One in the amount of approximately ₱87.1 million. On November 9, 2004, the Company's Board of Directors approved the conversion of said advances into equity in Image One. The SEC approved the conversion on March 7, 2006. On June 13, 2006, the Company's Board of Directors resolved to divest its interests in Image One through declaring property dividends to its major shareholders. This property dividend is still pending approval of the SEC.

Agreements with RGMA

In the most recent agreement executed on January 1, 2007, RGMA has agreed to provide general management, programming and research, events management, on-air monitoring of commercial placements, certificates of performance, billing and collection functions; and local sales service for the 25 radio stations of the Company. RGMA is paid management and marketing fees based on billed sales.

GMA Marketing and Productions, Inc.

The Company entered into a marketing agreement with its wholly-owned subsidiary, GMA Marketing wherein GMA Marketing agreed to sell television advertising spots and airtime in exchange for which GMA Marketing will be entitled to a marketing fee and commission.

San Mateo Management Corporation

GMA Marketing engaged San Mateo as consultant in connection with its dealings with existing and potential customers for an agreed fee based on the sales performance on a given month. San Mateo is owned and controlled by Manuel P. Quiogue, President of GMA Marketing.

Film Experts, Inc.

The Company sub-leases Filmex Studio B and supplemental (multi-functional) areas located in Makati City from Film Experts, Inc. under the terms of a Sub-Lease Contract. The latest lease period expired on January 31, 2007 and has since been renewed to expire on June 30, 2008. The Company has agreed to pay monthly rental fees of ₱318,462.72. On June 13, 2006, the Company's Board of Directors resolved to divest its interest in Film Experts, Inc. through declaring property dividends to its major shareholders. This resolution is still pending approval of the SEC.

Belo Gozon Elma Parel Asuncion & Lucila Law Office

The Company and the law firm of Belo Gozon Elma Parel Asuncion & Lucila entered into a retainer agreement in 1993 under which Belo Gozon Elma Parel Asuncion & Lucila was engaged by the Company as its external counsel. As such external counsel, Belo Gozon Elma Parel Asuncion & Lucila handles all cases and legal matters referred to it by the Company. Except for Felipe L. Gozon, who is part of the Gozon Family, one of the principal Shareholders of the Company, and director of the Company since 1976, some of the lawyers of Belo Gozon Elma Parel Asuncion & Lucila eventually assumed certain positions and functions in the Company either in their individual capacities or as part of the functions of Belo Gozon Elma Parel Asuncion & Lucila as the Company's external counsel. See "Legal Matters".

Agreements among Certain Shareholders

As at the date of this Prospectus, there were no existing agreements among and between the shareholders.

SELLING SHAREHOLDERS

As at the date of this Prospectus, the Selling Shareholders are the owners of an aggregate of 3,120,324,845 Common Shares and 7,488,779,628 Preferred Shares, which together comprise 99.85% of the Company's enlarged capital. The Company's enlarged share capital prior to the Combined Offer consists of 3,125,000,000 issued and outstanding Common Shares and 7,500,000,000 issued and outstanding Preferred Shares which are convertible into 1,500,000,000 Common Shares. Assuming full conversion of the Preferred Shares, the issued and outstanding Common Shares will be 4,625,000,000.

A total of 730,769,000 PDRs relating to 730,769,000 Common Shares are being offered by the Selling Shareholders pursuant to the Secondary Offer. After the Combined Offer, the total issued and outstanding Common Shares shall be 3,307,692,000. Furthermore, the Selling Shareholders will own an aggregate of 2,389,555,845 Common Shares and 7,488,779,628 Preferred Shares, which together comprise 80.86% of the Company's enlarged capital, assuming that the Over-allotment Option is not exercised and without giving effect to the Company's ESOP. If the Over-allotment Option of 123,317,00 PDRs on Secondary Common Shares and 13,701,000 Common Shares is fully exercised, the Selling Shareholders will own an aggregate of 2,252,537,845 Common Shares and 7,488,779,628 Preferred Shares, which together comprise 78.01% of the Company's enlarged capital without giving effect to the Company's ESOP.

The table below shows the breakdown of Common Shares underlying the PDRs to be sold under the Combined Offer and Common Shares owned by each Selling Shareholder before and after the Combined Offer. See the section entitled "Market Price of and Dividends on the Company's Shares and Related Shareholder Matters—Description of Major Shareholders" on page 167 of this Prospectus for a description of each Selling Shareholder.

	Before the Combined Offer				
	Common Shares	Preferred Shares	Common Shares Underlying the PDRs to be Sold under the Combined Offer	Common Shares After the Combined Offer without Over-allotment Option	Common Shares After the Combined Offer with Full Exercise of Over-allotment Option
FLG Management & Development Corp.	908,778,295	2,181,067,908	212,829,164	695,949,131	656,044,009
Gozon Development Corp.	19,268,877	46,245,306	4,516,152	14,752,725	13,905,954
Gozon Foundation, Inc.	6,258,613	15,020,670	1,468,846	4,789,767	4,514,361
Group Management & Development, Inc.	1,094,085,545	2,625,805,308	256,229,534	837,856,011	789,813,389
M.A. Jimenez Enterprises, Inc.	628,741,177	1,508,978,826	147,249,954	481,491,223	453,882,095
Television International Corp.	463,192,338	1,111,661,610	108,475,350	354,716,988	334,378,037
TOTAL	3,120,324,845	7,488,779,628	730,769,000	2,389,555,845	2,252,537,845
	Percentages of total share numbers				
FLG Management & Development Corp.	19.65%	9.43%	4.43%	14.48%	13.65%
Gozon Development Corp.	0.42%	0.20%	0.09%	0.31%	0.29%
Gozon Foundation, Inc.	0.14%	0.06%	0.03%	0.10%	0.09%
Group Management & Development, Inc.	23.66%	11.35%	5.33%	17.43%	16.43%
M.A. Jimenez Enterprises, Inc.	13.59%	6.53%	3.06%	10.02%	9.44%
Television International Corp.	10.01%	4.81%	2.26%	7.38%	6.96%
TOTAL	67.47%	32.38%	15.20%	49.70%	46.85%
Enlarged Capital		4,625,000,000	4,807,692,000	4,807,692,000	4,807,692,000

DESCRIPTION OF PROPERTIES

As at March 31, 2007 the Company's total property and equipment and real property amounted to ₱3,900.5 million. The property and equipment had a book value of ₱2,528.6 million, while its real property had a fair market value of ₱1,371.9 million.

The following are the principal properties of the Company:

- The Channel 7 compound located in Barangay South Triangle, Diliman, Quezon City, which contains several buildings, including the GMA Network Center building;

- The GMA Network Center Annex, a four-storey building currently under construction on a 4,053 square meter property adjacent to the GMA Network Center at Jamboree cor. EDSA, Diliman Quezon City;

- The GMA-7 Antenna Tower in Tandang Sora Avenue, Barangay Culiat, Diliman Quezon City, which contains the TV and FM Transmitter building and the Satellite Uplink building;

- Land located on the east corner of Mother Ignacia Avenue and Sergeant Esguerra Avenue, Barangay South Triangle, Diliman Quezon City which houses the GMA Fleet Center; and

- Properties in the key areas across different regions:

  Luzon

  - Land in Barangay Malued, Dagupan City, where the Company plans to construct a television studio; and

  - A 51,135 square meter property in Panghulo, Obando, Bulacan where an AM transmitter site, a two-storey building, a genset house, and an AM tower are situated.

  Visayas

  - Land located in Nivel Hills, Barangay Lahug, Cebu City, containing a multilevel building which houses radio and television operation facilities;

  - Land in Barangay Tamborong, Jordan, Guimaras where a radio and television transmitter is located;

  - Land in Alta Tierra, Jaro, Iloilo City where radio and television studios and a building are located;

  - Land in Barangay Jibao-an, Pavia Iloilo where an AM transmitter site and building are located;

  - Land in Barangay Sta. Monica, Puerto Princesa City, Palawan where a television relay transmitter site and building are located; and

  - Land in Barangay Bulwang, Numancia, Aklan where a television relay transmitter site and a building are located.

Mindanao

- Land in Bo. Matina Hills, Davao City where a FM television transmitter site and a building are located;

- Land in Barangay San Isidro, General Santos City where a television relay transmitter site and a building are located; and

- Land in Barangay Cabatangan, Zamboanga City where a television relay transmitter site and a building are located.

The properties owned by the Company are currently unencumbered and are free from any existing liens.

The Company is in the process of acquiring a 2,000 square meter property in Barangay Concepcion Pequena, Naga, Camarines Sur and has paid a down payment of 50%, or ₱4.0 million from its own funds. The Company does not intend to acquire any properties within the next 12 months from the date of this Prospectus.

The Company also leases land, building and studio space in various locations around the Philippines under lease agreements for periods of between three and 25 years. The lease agreements may be cancelled at the Company's option. The aggregate rental expense of the Company as at March 31, 2007 amounted to ₱140.5 million. The principal leased properties of the Company are the GMA Studio in Broadway Centrum located in Quezon City and the Filmex B Studio located in Makati City. See "Material Contracts and Agreements".

Land Leases

Lessor	Location	Lease Date	Expiry Status
Away, Jeana	Barlig, Mt. Province	04/31/16	Active
Benjamin Macasa	Barangay Punta Taytay, Bacolod City	07/31/08	Active
Bernardo, Eduardo	San Roque, Camaligan, Camarines Sur	03/31/09	Active
BG Investment & Dev't. Corp.	Barangay Mampang, Zamboanga City	11/30/06	Renewal under discussion
Cabanos, Antonio A,	Sn. Nicolas, Ilocos Norte	11/30/06	Lease expired; the Company is still liable for rental payments until it fully vacates the premises
Cabrera, Manuel	Visperas St., Malabago, Mangaldan, Pangasinan	07/31/07	Active
Delica, Melecio and Briones, Lamberto	Mt. Banoy, Batangas	12/31/15	Active
Diu, Wilfredo	Tacloban City	08/14/22	Active
Dominiel, Georgia M. and/or Villanueva, Juanita D.	Tuguegarao City, Cagayan	10/31/07	Lease has been preterminated; the Company is still liable for rental payments until it fully vacates the premises
Florpet Realty Corporation	Babag Hills	03/31/12	Active

Lessor	Location	Lease Date	Expiry Status
J.C. Ng Dev't. Corp.	Barangay San Manuel, Puerto Princesa, Palawan	07/31/08	Active
Lim, Remberto F.	Coron, Palawan	12/01/07	Active
Lopez, Sonia A.	Cagayan de Oro	07/01/08	Lease has been preterminated; the Company is still liable for rental payments until it fully vacates the premises
Quimsis Corporation/ Quimpo, Cecilia	Barangay Ma-a, Davao City	12/31/08	Active
Salangsang, Renato	Guinto St. Purok Malakas, General Santos City	06/30/09	Active
Santos, Resurrecion A.	Roxas City, Capiz	07/31/07	Lease has been preterminated; the Company is still liable for rental payments until it fully vacates the premises
Servado, Sylvia	Mt. Palpalan, Upper Locuban, Pagadian City	10/12/12	Active
Solar Entertainment	Antipolo Building	12/31/08	Active
Telecommunications Office	Mt. Bariw, Legaspi	05/01/17	Active

Building Leases

Lessor	Location	Lease Date	Expiry Status
4-Star Real Estate Lessor	Jomabo Center San Jose Bldg. Rizal Lacson St., Bacolod City	12/31/09	Active
Ackkhor Realty & Holding	MCK Building, Iligan City	07/31/07	Active
Alfonso Bichara	Bichara Mall, Legazpi City, Albay	09/30/12	Active
Allied Med. Equip. & Supply Corp.	Davao City	04/30/07	For renewal
Ancon Dev't. & Realty Corp.	GRC Building, Quezon Avenue cor. Rizal St., Lucena City	10/31/07	Active
Aniceto Cokee and Sons	Tuguegarao, Cagayan	04/01/11	Active
Banson, Norbertina	EDSA cor. East Avenue, Quezon City	04/30/07	Under renewal
Chateau De Baie Condominium	149 Roxas Blvd Cor. Airport Road, Brgy Baclaran, Parañaque City	03/05/11	Active
Chua, Edmundo H.	Aparri, Cagayan	02/02/11	Active
City of Sipalay	Sipalay, Negros Occidental	11/01/10	Active
De Vera, Gloria	Arellano St., Dagupan City	09/30/10	Active
Filsystems Tower 1 Inc.	#800 EDSA, Quezon City	06/01/09	Active
Guevent Industrial Dev. Corp.	Peñafrancia, Naga City	07/07/07	Active
Hamada Pub. Corp.	No.16 Kisad Road, Baguio City	07/31/09	Active

Lessor	Location	Lease Date	Expiry Status
Marcelo Mendoza Dev't. Corp./Elloso, Wenceslao	Gov, Lim Avenue & Pilar Street, Zamboanga City	12/31/06	Lease expired; the Company is still liable for rental payments until it fully vacates the premises
Marel Realty & Dev't. Corp.	Pabayo St.	03/15/11	Active
PBC Dev't. Corp.	Cagampang Street, General Santos City, South Cotabato	10/15/07	Active
Rural Bank of Cabadbaran	San Francisco Street, Butuan City, Agusan del Norte	10/31/11	Active
Singson, Leila A.	Vigan Ilocos Sur	12/01/06	Lease has been preterminated; the Company is still liable for rental payments until it fully vacates the premises
Security Bank	Bacolod City	10/14/15	Active
Telecommunications Office	Basco, Batanes	12/01/07	Active
Torres, Myrna	Andagao, Kalibo, Aklan	12/31/07	Active
Uy, Perfecto	Gen. Santos City	03/14/08	Active
Villa Blanca Hotel Corp.	#8 Pattaui St., Tuguegarao City, Cagayan Valley	08/01/07	Active
Ynawat, Nazir	Ynawat Building Hadji Butu St. Jolo Sulu	04/30/11	Active

Studio Leases

Lessor	Location	Lease Date	Expiry Status
Film Experts, Inc.	Makati City	06/30/08	Active
JM & Company	Makati City	04/30/07	Under negotiation
Rdr Realty Corp (Broadway Studios)	Broadway Centrum, Quezon City	12/31/06	For renewal

MATERIAL CONTRACTS AND AGREEMENTS

The following are summaries of the material terms of the principal contracts related to the Company's primary business and should not be considered to be a full statement of the terms and provisions of such contracts. Accordingly, the following summaries are subject to the full text of each contract.

Airtime Agreements

The Company entered into an airtime agreement on August 29, 2005 with Television and Production Exponents, Inc. ("TAPE") which is in effect for a period of five years from January 1, 2005 to December 31, 2009. Under this agreement, the Company agreed to provide TAPE with nationwide airtime from 12:00 p.m. to 2:00 p.m., Monday to Friday and from 12:00 p.m. to 2:30 p.m. on Saturday on a blocktime basis. In exchange, TAPE agreed to produce the variety program *Eat Bulaga*. TAPE assumed all production expenses and agreed to pay all costs relating to royalties, fees and other expenses arising from the use of any copyrighted material for the program. TAPE agreed to pay the Company fixed fees in consideration for the airtime provided by the Company.

Copyright Music Broadcast License

A copyright music broadcast license was executed by the Company on June 11, 2004 with the Filipino Society of Composers, Authors and Publishers, Inc. ("FILSCAP"), whereby FILSCAP granted the Company a non-exclusive license to play the FILSCAP repertoire in its television broadcasts. The license authorizes only the television broadcast of music in programs through or by Channel 7 and another station of the Company, but in no case is the music to be broadcast by more than two television stations. The term of the license is from January 1, 2003 to December 31, 2007. The Company agreed to pay royalties specified in the contract for the use of the license.

In a cable television programming blanket license agreement executed by the Company and the American Society of Composers Authors and Publishers, Inc., ("ASCAP") on January 1, 2005, ASCAP granted the Company a non-exclusive license to transmit in the United States, over any and all television distribution systems employed by the Company, various performances of musical compositions in the ASCAP repertoire. The term of the license is four years, to end on December 31, 2008; and the Company has committed to pay ASCAP a percentage of its annual gross revenues relative to its broadcasts in the United States.

Transponder Lease Agreement

For its broadcast operations, the Company originally leased transponder capacity on a satellite owned by MEASAT Satellite Systems SDN. BHD., for an initial period of three years. In October 2005, the Company renewed the agreement extending the term of the lease for an additional two years expiring on September 30, 2007. The Company also agreed to lease an additional 4.5MHz of transponder capacity from November 11, 2005 to September 30, 2007. The lease agreement provides for quarterly fee payments. Assignment of the agreement is generally prohibited without the prior written consent of the other party.

Agreements with Overseas Television/Cable Providers

The distribution of the Company's *GMA Pinoy TV*, which broadcasts a variety of programming outside of the Philippines, is the subject of several contracts executed by the Company. The contracts involve the distribution of *GMA Pinoy TV* in areas in the United States, Japan, Guam, Saipan, Papua New Guinea, the Middle East and North Africa.

Affiliation Agreement for DTH Satellite Exhibition of Cable Network Programming with DirecTV, Inc.

The Company executed an agreement with DirecTV, Inc. ("DirecTV") on June 1, 2005 granting DirecTV a non-exclusive right to distribute *GMA Pinoy TV* via the DTH Distribution System throughout the United States. Under this agreement, DirecTV retained the exclusive right to distribute *GMA Pinoy TV* via the DTH satellite for the first three years following the Service Commencement Date (the date on which DirecTV commences distribution of *GMA Pinoy TV* over a DTH Satellite for revenue-generating purposes, as determined by DirecTV in its sole discretion). The agreement will expire on the eighth anniversary date of the Service Commencement Date. In consideration of the right to distribute *GMA Pinoy TV*, DirecTV agreed to pay a pre-determined license fee to the Company. The Company is obligated to provide DirecTV with a fixed fee for the marketing, advertising and promotion of *GMA Pinoy TV* and the DTH Distribution System.

GMA Pinoy TV Premium Network Affiliation Agreement with Comcast Cable Communications LLC

The Company has executed an agreement with Comcast Cable Communications LLC ("Comcast") in March 2005 (notarized on April 13, 2005) through which the Company granted a non-exclusive license and right to distribute and sub-distribute *GMA Pinoy TV* to subscribers within the United States by any distribution technology or platform (other than Online Technology and DTH), whether now existing or developed in the future, for a period of ten years from March 2005. Comcast's payment to the Company for the right to distribute *GMA Pinoy TV* is based on an agreed formula, dependent upon whether the programming is distributed to subscribers as a stand-alone service, or packaged with other programming.

Channel Carriage Agreement with Orbit Communications Company

On February 3, 2006, the Company entered into a Channel Carriage Agreement with Orbit Communications Company ("Orbit"), for the exclusive license to broadcast in Orbit's licensed distribution systems *GMA Pinoy TV*, radio station DZBB-AM and radio station DWLS-FM in 27 countries in the Middle East and North Africa, with a corresponding non-exclusive right for cable re-distribution in Israel. The term of the agreement is for five years, which commenced in February 2006. In consideration for the license granted by the Company, Orbit agreed to pay the Company a combination of license fees and a net revenue sharing scheme between Orbit and the Company on subscription fees or actual collections made.

Affiliate Agreement with Cox Communications, Inc.

The Company entered into an affiliate agreement with Cox Communications, Inc. ("Cox") on December 7, 2005. The agreement grants to Cox the non-exclusive right to distribute *GMA Pinoy TV* to subscribers in the United States. Set to expire at the end of 2009, Cox agrees to pay the Company a specified fee for each subscriber to the service.

Affiliation Agreement with Wave Division Holdings LLC

On February 26, 2006, the Company entered into an affiliation agreement with Wave Division Holdings LLC ("Wave") for the non-exclusive right, license and obligation for distribution and exhibition of *GMA Pinoy TV*, via a cable television system, within the United States. The term of such agreement is for five years commencing on the date of execution. The agreement's payment scheme is contingent on whether the provision of the service is on an "a la carte" basis, or whether the service is packaged with other channels of Wave; there is a corresponding rate charged to every subscriber for each of the service provision arrangements.

Premium Cable Agreement with Americable International Japan, Inc.

Under a premium cable agreement with Americable International Japan, Inc. ("Americable"), the Company granted Americable the non-exclusive license to broadcast *GMA Pinoy TV* Channel One in designated U.S. military base areas in Japan. The agreement was entered into on March 21, 2005, with a term of five years from the commencement of provision of services, which in any case would not be later than June 1, 2005. There is also a provision for automatic renewal for subsequent consecutive terms of one year after the expiration of the original term under the same terms and conditions, unless either party notifies the other in writing at least 60 days prior to the expiration of any one year renewal term of its intention not to renew. Payments under the agreement are made according to a flat rate per subscriber basis, or a designated percentage of the total amount collected from such subscriber, whichever is greater.

Premium Cable Agreement with Guam Cablevision LLC

In a similar premium cable agreement with Guam Cablevision LLC ("Guam Cablevision"), the Company granted the non-exclusive license to broadcast *GMA Pinoy TV* in the territory of Guam. Executed on March 18, 2005, it was stipulated that the agreement would have a term of five years from the commencement of provision of services, which in any case would not be later than April 1, 2005. Payments under the agreement are made according to a flat rate per subscriber basis, or a designated percentage of the total amount collected from such subscriber, whichever is greater.

Premium Cable Agreement with CNMI Cablevision LLC

In the Northern Mariana Islands, the license to broadcast *GMA Pinoy TV* was granted in favor of CNMI Cablevision LLC ("CNMI Cablevision"). The agreement was executed on November 14, 2005 for a term of five years from the commencement of provision of services, which shall in no case be later than November 21, 2005. Payments under the agreement are made according to a flat rate per subscriber basis, or a designated percentage of the total amount collected from such subscriber, whichever is greater.

Premium Cable Agreement with Channel 8 Limited

The Company entered into Premium Cable Agreement with Channel 8 Limited ("Channel 8") granting Channel 8 the non-exclusive right to broadcast *GMA Pinoy TV* to its subscribers within Papua New Guinea, for a period of one year from January 15, 2007, and renewable upon terms and conditions mutually acceptable to the parties. The Company is entitled to a license fee specified in the Agreement.

Affiliation Agreement with San Bruno Municipal Cable TV

The Company entered into an Affiliation Agreement with San Bruno Municipal Cable TV ("San Bruno") granting San Bruno the non-exclusive right, license and obligation to distribute, transmit, and exhibit *GMA Pinoy TV* to its subscribers within the United States. The term of the agreement is for five years from February 12, 2007. The agreement's payment scheme is contingent on whether the provision of the service is on an "a la carte" basis, or whether the service is packaged with other channels of San Bruno; there is a corresponding rate charged to every subscriber for each of the service provision arrangements. The Company is entitled to the greater of an agreed amount per subscriber or a percentage of the fee charged to a subscriber.

License Agreement with IPS, Inc.

The Company granted IPS, Inc. ("IPS") an exclusive license to broadcast GMA Network International Channel, *GMA Pinoy TV*, and GMA's Radio Program DZBB 594 AM in Japan via Direct-to-Home/Direct Broadcast Services, Cable, IP-based, and other fixed TV modes of transmission. The exclusive license has a term of five years, commencing on March 1, 2005 and expiring on May 31, 2010. The agreement is renewed automatically for another five years under the same terms and conditions, unless either party serves the other party a written notice of either: a) termination six months before the expiration of the agreement, or b) intention to renew the agreement upon new terms and conditions. The Company is entitled to receive license fees based on a certain percentage of subscriber fees charged to the subscriber, or a minimum amount as agreed by the parties, whichever is higher.

Agreement with Time Warner Cable, Inc.

In a letter agreement dated July 25, 2006, the Company agreed to grant Time Warner the license to carry *GMA Pinoy TV* in the State of Hawaii, as well as in Southern California systems previously operated by Comcast. The Company, in consideration for the grant of the license, is paid based on whether the provision of the service is on an "a la carte" basis, or whether the service is packaged with other channels of Time Warner; there is a corresponding rate charged to every subscriber for each of the service provision arrangements. The interim arrangement commenced on August 1, 2006 and shall expire on July 31, 2007 or when the Company and Time Warner have entered into a long-term carriage arrangement, whichever comes first.

License Agreements

Merchandise License Agreement with PSICOM Publishing, Inc.

The Company granted PSICOM Publishing, Inc. ("PSICOM") the license to use "BUBBLE GANG", "MAHIWAGANG BAUL" and "LOVE TO LOVE" from the television programs and all related titles, logos, and characters that are trademarks of the Company for merchandise or licensed articles which include joke books, comic books and pocket books in the Philippine territory. The licensing agreement is valid for 14 months commencing November 1, 2006 and ending January 31, 2008. The Company is entitled to a guaranteed fee, and royalties for the grant of the license.

Merchandise License Agreement with Pherica International Corporation

The Company granted Pherica International Corporation ("Pherica") the license to use "ATLANTIKA" from the fictional television series and all related titles, logos, and characters that are trademarks of the Company for merchandise or licensed articles which include toys and novelty items in the Philippine territory. The license is valid from October 1, 2006 to December 31, 2007. The Company is entitled to a guaranteed fee, and royalties for the grant of the license.

Agreement for Services

In December 2005, the Company executed an agreement with PVI Philippines Corporation ("PVI"), a Delaware corporation, allowing the Company to sell virtual advertisements in its pre-recorded and live television broadcasts, using the proprietary equipment and technology of PVI to insert electronic image advertising and electronic enhancements. The equipment and technology of PVI employed to insert virtual advertisements and electronic enhancements is located within the Company's premises and operated by PVI personnel. In consideration for the technology and services, PVI is entitled to an agreed percentage of the revenues generated from the sale of the virtual advertisements or an annual minimum guaranteed payment, whichever is higher. The pricing for virtual advertisements shall be jointly determined by PVI and the Company. The Agreement has an initial term of one year from the date of acceptance by the Company of the terms and conditions of the Agreement, and will be automatically extended for an additional two year period, unless either party gives notice to the other within 90 days prior to the end of the first year of the term of such party's desire not to extend the term.

Agreements with RGMA

RGMA, which has a legislative franchise to own, manage, and operate radio and television stations, has an agreement to provide the Company with the following services relative to 23 operating radio stations owned by the Company in the Philippines: general management, programming and research, events management, on-air monitoring of commercial placements, certificates of performance, billing and collection functions; and local sales service. The agreement is effective for one year from January 1, 2007 to December 31, 2007, subject to renewal upon mutual agreement by the parties.

Under the terms of the agreement, RGMA, for its own account, agreed to employ or engage the services of such number of qualified personnel as may be necessary to carry out the foregoing services. RGMA also agreed to pay for the direct and administrative costs of the radio stations, such as salaries of its regular employees, talent fees, communications and all other expenses. The Company, in turn, agreed to pay all expenses incurred by the radio stations such as rent and utilities. For all of the services it renders, RGMA is paid a management fee corresponding to a designated percentage of the national and/or local sales of the various radio stations it manages.

Currently, the Company owns 49.0% of RGMA's outstanding shares. See "Business — Radio Business".

Lease Agreements

The Company signed a lease agreement with RDR Realty Corporation (formerly Broadway Centrum Condominium Corporation) for the lease of a portion of the Broadway Centrum Complex designated and known as the GMA Studio, located at Aurora Boulevard and Dona Juana Rodriguez, Avenue, Quezon City. The present agreement is a renewal agreement for two years, to expire on December 31, 2006. The renewal of this contract is currently under negotiation, with an intention to renew the lease for another 18 months.

The Company also has a sublease agreement with Film Experts, Inc. over Filmex Studio B and Supplemental (Multi-functional) areas in Makati, used for office purposes, production for television programs, film features and such other purposes consistent with the Company's business. This lease has been renewed with validity period until June 30, 2008.

Agreements with Citynet — QTV Channel 11

Zoe Broadcasting Network, Inc. ("ZBNI") signed a co-production and block-time agreement with Citynet on December 7, 2004, under which Citynet agreed to provide programs and shows to be broadcast on ZBNI's Zoe Channel 11. Correspondingly, ZBNI agreed to provide airtime on Zoe Channel 11 for programs and shows daily. In consideration for the airtime, Citynet agreed to pay a minimum annual fee or a percentage of gross sales of programs, whichever is higher, payable in equal monthly instalments, which, during the third year, is subject to an annual escalation rate. The term of the agreement is seven years. Additionally, nothing in the agreement prevents Citynet from assigning to, or entering into separate co-production or blocktime agreements with, third parties for programs and shows to be aired on Zoe Channel 11. However, in the event that ZBNI is prevented or restrained from performing its obligations under the agreement for more than six months, Citynet has the option to cancel the agreement.

As a corollary to the co-production and block-time agreement to provide programs and the necessary airtime, Citynet, the Company and ZBNI executed on December 7, 2004 a technical services agreement in which the Company agreed to furnish certain equipment and facilities, the ownership of which will be transferred to ZBNI after the initial term of the co-production and block-time. However, should ZBNI be prevented or restrained from performing its aforesaid obligation under the agreement, the Company has the option to cancel the agreement, in which event, ZBNI will return the facilities and equipment that the Company may have provided. The foregoing requirement for the return of the facilities and equipment will be applicable only when the cancellation is effected within the first three years of the agreement. After the lapse of the three-year period, ZBNI will have the right to retain these facilities and equipment. After furnishing such equipment, the agreement provides that the Company will provide ZBNI the necessary services for the operation, maintenance and repair of said facilities and equipment through its resources and qualified technicians, engineers and consultants. Citynet has agreed to pay the Company a technical service fee for such services rendered, which is subject to an annual escalation clause.

Citynet and ZBNI also executed on December 7, 2004 a Supplemental Agreement in relation to the co-production and blocktime agreement between them whereby Citynet agreed to provide ZBNI the transmitter, antenna and other peripheral facilities and equipment, the total value not to exceed an agreed amount, that may be needed for ZBNI's UHF operations. In addition, Citynet agreed to give ZBNI free airtime in the Company's Channel 7 one hour of airtime for the ZBNI program "Diyos at Bayan".

Agreements with Related Parties

GMA Marketing

On April 26, 2007, the Company executed a marketing agreement with its subsidiary, GMA Marketing, wherein GMA Marketing agreed to sell television advertising spots and airtime in exchange for which GMA Marketing is entitled to a marketing fee and commission. Under the agreement, GMA Marketing is the sole and exclusive contractor for the marketing and sale of advertising spots and/or airtime of the television programs of the Company and its affiliates, including programs of *Qtv* and *GMA Pinoy TV*. Consequently, GMA Marketing is prohibited from entering into any marketing contract or agreement of whatever nature for the sale of television spots and/or airtime or any contract similar to these with any other television station, network, company, individual, group of individuals, partnerships, associations or organizations during the duration of the agreement, unless expressly permitted in writing by the Company. Such agreement will be effective from January 1, 2007 to December 31, 2007.

GMA Marketing is a wholly-owned subsidiary of the Company.

3LM Koblenz Management Corporation ("3LM")

GMA Marketing engaged 3LM in March 1, 2007 to expire on February 29, 2008, as a consultant in connection with its dealings with existing and potential customers for an agreed fee based on its sales performance for a given month. 3LM agreed to provide advice, counsel and assistance in connection with maintaining contract volume on existing contracts with customers; gaining new and potential customers and maintaining relations with ongoing customers; making introductions with, operations and other general matters related to the conduct of GMA Marketing's business. 3LM is owned and controlled by Manuel P. Quiogue, the President of GMA Marketing.

INQ7 Interactive, Inc.

The Company executed a Memorandum of Agreement with the Philippine Daily Inquirer ("PDI") and their joint-venture company, INQ7 Interactive, Inc. Under this agreement, the Company and PDI agreed to effect certain changes to the website being maintained by INQ7 Interactive, Inc., www.INQ7.net, whereby each of the Company and PDI would be allowed to maintain by themselves or their respective subsidiaries and/or affiliates, their own separate news websites using the www.INQ7.net website as a portal. The Company and PDI further agreed that an independent third party would host the portal, under terms and conditions mutually agreed upon, and the Company and PDI, by themselves or through their respective subsidiaries or affiliates, would have their own sales teams for purposes of selling advertisements placements for their respective websites. All revenues from these sales would belong exclusively either to the Company or to PDI.

Material Agreements of Subsidiaries

GMA New Media, Inc.

GMA New Media entered into a Shareholders' Agreement with Summit Publishing Co., Inc. a major magazine publisher in the Philippines, for the establishment of a joint venture corporation, for the purpose of engaging in the business of providing application services for developing websites; and to create a show business, entertainment and celebrity portal accessible through the internet, mobile phones and other multi-media devices. Through such joint venture, "Pep.ph", the Philippines Entertainment Portal, was launched, and is the first and only web portal in the Philippines dedicated to entertainment news.

TERMS AND CONDITIONS OF THE PDRS

The following is a summary, subject to completion and amendment and excepting sentences in italics, of the terms and conditions of the PDRs which grant the right to delivery or sale of Underlying Shares owned by the PDR Issuer pursuant to a PDR Instrument to be dated on or about July 16, 2007 (the "PDR Instrument"), entered into by the PDR Issuer in favor of Holders (as defined below). Stock Transfer Service, Inc. has agreed to act as PDR Agent (the "PDR Agent") and as PDR Registrar (the "Registrar") in relation to the PDRs. The PDR Issuer will execute a pledge over the Underlying Shares in favor of Banco de Oro — EPCI, Inc. as Pledge Trustee, acting on behalf of the Holders, to secure the PDR Issuer's obligation to deliver Underlying Shares upon exercise of the PDRs. This summary is subject to the detailed provisions of the PDR Instrument. The Holders (as hereinafter defined) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of PDR Instrument and the Pledge Agreement.

1 **Form, Status, Transfer, Title and Certificates**

(a) The PDRs shall be issued in registered and/or scripless form (in which case the PDRs shall be lodged in the system of the PDTC). Each Holder shall, subject to the payment of appropriate fees and expenses for the upliftment of certificates from the PDTC, be entitled to the issuance of a certificate ("Certificate") stating the number of PDRs it represents and the terms and conditions of the PDRs. Each Certificate will have an identifying number which will be recorded on the relevant Certificate and in the Register (as defined in Condition 1(b)).

(b) Certificated PDRs will be transferable only by completing the endorsement at the back of the Certificate(s) and surrendering the same to the Registrar in accordance with the provisions of the PDR Instrument. The Registrar shall maintain a PDR registry book (the "Register") which shall contain a record of all transfers of certificated PDRs. Unless recorded in the Register, any transfer of certificated PDRs shall not be binding on the transferor or the Issuer. Uncertificated PDRs shall be transferable in accordance with the rules of the PDTC. Transferors of the PDRs shall pay all applicable stock transaction, documentary stamp and any other applicable taxes due on the transfer of the PDRs.

(c) Each person who is for the time being shown in the Register kept by the Registrar as owning, whether of record or beneficially (through the book-entry system of the PDTC), a particular number of PDRs shall be treated by the PDR Issuer, the Company and the Registrar as the holder of such number of PDRs. The expression "Holder" shall be construed accordingly.

(d) The PDRs in scripless form will be delivered and made available to the Holders for trading upon listing of the PDRs on the Philippine Stock Exchange. Subsequent transfers of PDRs shall be lodged with the PDTC until the relevant PDR is exercised, or unless the Holder requests for upliftment into Certificate(s) prior to such time. Upon exercise of the PDR Exercise Rights (as defined below), the Shares delivered or sold shall be lodged with the PDTC unless and until the exercising Holder (in the case of delivery) or a subsequent transferee of such Shares (in the case of sale) request for upliftment into registered stock certificate(s) evidencing Shares; provided that, such Holder or subsequent transferee, as the case may be, pays the appropriate fees and expenses for the upliftment of such Shares.

The procedure for "upliftment" in accordance with the rules of the PDTC are described in "The Philippine Stock Market" below.

(e) If a Certificate is defaced, worn out, lost, stolen or destroyed, it may be replaced on such terms (if any) as to evidence and indemnity and payment of the expenses incurred by the PDR Issuer investigating such evidence, and payment of such fee as may be reasonably required and, in the case of defacement or wearing out, surrender of the old Certificate. Replacement of lost, stolen or destroyed PDR Certificates must comply with Section 63 of Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines.

If an initial purchaser of Rule 144A PDRs decides to offer, sell, pledge or otherwise transfer any of such PDRs, it may do so only to a non-US person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of any Rule 144A PDRs into the United States).

(f) The PDR Issuer, the Holders and all persons claiming under the PDRs, shall comply with the terms of the PDRs and the Conditions in all respects, and the PDRs shall be held subject to such provisions and the Conditions which shall be binding on the Issuer, the Holders and all persons claiming through or under the PDRs.

(g) The PDR Issuer shall, upon exercise of all or any of the PDR Exercise Right from time to time, convey to or to the order of the exercising Holder title to the appropriate number of Shares, free and clear from any liens, in accordance with the Conditions.

2 **Status and Security**

The PDRs are unsubordinated and secured obligations of the PDR Issuer and rank pari passu and rateably without any preference among themselves.

The obligations of the PDR Issuer in respect of the PDRs are secured by a pledge agreement (the "Pledge Agreement") dated on or about July 16, 2007 in favor of Banco de Oro—EPCI, Inc. as Pledge Trustee acting on behalf of the Holders. The Pledge Agreement secures the delivery by the PDR Issuer of the Shares upon exercise of the PDRs. The number of PDRs outstanding will always be matched by an equal number of Shares subject to the Pledge Agreement.

See "Description of the Pledge Agreement".

3 **Ownership of Shares and Voting Rights**

(a) Pending exercise of the PDRs (subject as described below), the Shares deliverable on exercise of the PDRs shall be owned by and registered in the name of the PDR Issuer.

(b) The Shares underlying the PDRs have been delivered by the PDR Issuer to the Pledge Trustee by way of the Pledge Agreement to secure the delivery by the PDR Issuer of Shares upon exercise of the PDRs pursuant to the Pledge Agreement.

(c) Neither the Pledge Trustee nor any Holder will have voting rights with respect to the Shares. Until an exercise of a PDR, the PDR Issuer, as owner of Shares underlying the relevant PDR, will retain and exercise such voting rights relating to the Shares.

4 **PDR Rights**

(a) Each PDR grants to the Holder, subject as provided herein, the right to:

(i) delivery or sale of a Share as set out in this Condition 4 (the "PDR Exercise Right");

(ii) certain payments as set out in Condition 8; and

(iii) additional PDRs or adjustments to the terms of the PDRs upon the occurrence of certain events as set out in Condition 9.

"Shares" means common shares of par value ₱1.00 of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those common shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

(b) The PDR Exercise Right is exercisable upon payment of the Exercise Price (as defined in Condition 4(c)) and entitles the Holder to delivery by the PDR Issuer to an Eligible Broker, to or to order of the Holder, of one Share (subject as provided in Condition 5 and subject to issuance of additional PDRs or adjustment in accordance with Condition 9) provided, however, that if the person to whom Shares are to be delivered is a non-Philippine Person, the Share will be delivered by the PDR Issuer to an Eligible Broker together with an irrevocable instrument to effect the sale of the Share in the open market and remit the net proceeds of such sale to or to the order of the Holder in accordance with the Exercise Notice. The PDR Issuer's obligations in respect of the PDR Exercise Right are discharged, in the case of a delivery of Shares pursuant to an exercise, upon delivery of the Shares to the Holder and, in the case of sale of Shares pursuant to an exercise, upon the sale of the Shares through the Eligible Broker in accordance with the Exercise Notice.

Under current Philippine law, Shares may not be owned by non-Philippine Persons. See "Description of the Shares".

An "Eligible Broker" is a securities broker that (a) has an office in the Philippines; (b) is licensed as a securities broker by the Securities and Exchange Commission and (c) is an active Trading Participant in good standing of the Philippine Stock Exchange. In the absence of a designation of an Eligible Broker by the Holder, ATR KimEng Securities, Inc. or such other broker as may be appointed by the PDR Issuer, shall act as the Eligible Broker in the Philippines through which Shares will be sold as described in these Conditions.

For so long as the Shares are considered to be "restricted securities" under the Securities Act, in order to comply with requirements in connection with certain securities legislation in the United States, each exercising Holder requesting delivery of Shares will be required to certify in the Exercise Notice that (a) neither the person exercising the PDRs nor any person on whose behalf the PDRs are being exercised is a person within the United States (as such terms are used in Regulation s) or (b) the person exercising the PDRs and any person on whose behalf the PDRs are being exercised is a QIB.

(c) The exercise price (the "Exercise Price"), which is subject to adjustment as described in Condition 9(g), shall be ₱0.05.

(d) Where PDRs are issued for cash or where PDRs are issued upon delivery of Shares, the amount received by the PDR Issuer or the price at which the Shares are crossed, less ₱0.05 shall be deemed to be and shall be treated by the PDR Issuer as a deposit (the "Deposit") which will be applied by the PDR Issuer on exercise towards payment for the relevant Shares and the further amount of ₱0.05 shall be deemed to be and shall be treated by the PDR Issuer as the consideration for the granting of the rights under the PDRs (the "PDR Option Price") and retained by the PDR Issuer. The PDR Issuer agrees that on exercise of any PDR only the Exercise Price shall be payable. The consideration for the Shares to be delivered or sold on exercise of a PDR shall be the Exercise Price and the application of the Deposit attributable to such PDR.

(e) The PDR Issuer's only obligation in respect of the Deposit is to apply the Deposit towards exercise of PDR.

(f) On the exercise of a PDR, the exercising Holder may, in the case of a sale of Shares pursuant to that exercise, elect to either pay the Exercise Price to the PDR Agent or as otherwise directed by the PDR Agent for payment to the PDR Issuer or designate an Eligible Broker to pay the Exercise Price on his behalf (and to deduct that amount from the sale proceeds). In the case of a delivery of Shares pursuant to the exercise of any PDR, the exercising Holder shall pay the Exercise Price to the PDR Agent or as otherwise directed by the PDR Agent for payment to the PDR Issuer. The Exercise Price is denominated and payable only in Pesos.

5 **Exercise**

(a) (i) A PDR Exercise Right may be exercised on any Business Day from (and including) the Listing Date up to such date (the "Expiry Date") in respect of which the PDR Issuer has given at least 45 days prior notice, upon the occurrence of certain events as set forth in condition 5(b), as being the termination date (the "Exercise Period") upon completion, execution and delivery to the PDR Agent, in the case of certificated PDRs, or to an Eligible Broker for submission to the PDR Agent, in the case of uncertificated PDRs, of (a) written instructions by or on behalf of the Holder to the PDR Agent in the form printed on the back of each Certificate or in the form from time to time available from the PDR Agent (or as may otherwise be agreed between the PDR Issuer, the Company and the PDR Agent) (the "Exercise Notice"), (b) the Certificate in relation to the PDRs to be exercised and (c) the Exercise Price. "Business Day" means a day upon which the Philippine Stock Exchange and banks in Manila, Philippines are not required to close.

(ii) An Exercise Notice, once received by the PDR Agent, shall constitute an irrevocable election and undertaking to exercise the PDRs specified therein and may not be withdrawn without the consent of the PDR Issuer. If an Exercise Notice is not duly completed, is materially inaccurate, or the number of PDRs specified therein exceeds the number of PDRs registered in the name of the Holder thereof as at the date of delivery of the Exercise Notice to the PDR Agent or the PDR Issuer, the PDR Agent may reject such Exercise Notice and any exercise shall not be effected until a duly completed and materially accurate notice is duly received by the PDR Agent.

(iii) Exercise of a PDR shall be deemed to have taken place on the Business Day on which delivery of an Exercise Notice to the PDR Agent on behalf of the PDR Issuer takes place if delivered before 11:00 a.m. (Manila time) on such Business Day (the "Exercise Date"). If such Exercise Notice is received after 11:00 a.m. (Manila time) on such Business Day, the Exercise Date will be deemed to be the next succeeding Business Day.

(iv) A "Suspension Period" occurs from the date the PDR Agent determines (in its absolute discretion) that as a result of the suspension of trading in the Shares or a general suspension of trading on Philippine Stock Exchange, the PDR Issuer is unable to procure the delivery or sale of Shares pursuant to the exercise of PDRs and shall continue until such delivery or sale may be effected. Notice thereof shall be given to Holders in accordance with Condition 16.

(v) If an Exercise Date (as defined in sub-paragraph (a)(iii) relating to the exercise of any PDRs) shall fall within a Suspension period, such Exercise Date shall be postponed until the first Business Day after the expiry of such Suspension Period. If, as a result of the postponement, the Exercise Date shall fall on a day after the Expiry Date, the exercise of the relevant PDRs shall be deemed to be valid notwithstanding that, as a consequence of the postponement, the Exercise Date falls after the Expiry Date.

(vi) The PDR Issuer shall not be obliged to deliver or sell Shares pursuant to Conditions 4 and 6 during any period which the register of members of the Company is closed for the purpose of establishing any dividend or other rights attaching to the Shares.

(b) In the event that under Philippine law all the Shares held by the PDR Issuer could be owned by Non-Philippine Persons or if only 47,956,700 of the PDRs, as such number may be adjusted to reflect the change in the number of PDRs outstanding pursuant to Condition 9, are outstanding, the PDR Issuer may, on giving not less than 45 days notice, specify a date as at which no further PDRs may be exercised. Shares in respect of any PDR still outstanding on such date shall be sold through an Eligible Broker and the proceeds of sale shall be payable upon presentation of the relevant PDR Certificate.

6 **Delivery or Sale**

(a) In the case of a delivery of Shares to an Eligible Broker in accordance with Condition 4(b), the PDR Issuer shall promptly procure delivery of the relevant certificates and other documentation necessary for transfer of the Shares to the Holder or sale to the order of the Holder within the settlement period for such Shares required by the rules of the Philippine Stock Exchange (the "Settlement Period").

The current settlement period required by the rules of the Philippine Stock Exchange is three trading days from the date on which securities are purchased or sold on the Philippine Stock Exchange. See "The Philippine Stock Market — Settlement".

(b) The PDR Issuer has authorized the PDR Agent to carry out on its behalf the steps necessary to affect such delivery as provided in Condition 4(b) subject to and in accordance with this Condition 6. Under the PDR Instrument, the PDR Issuer has agreed to deliver to the PDR Agent all documents necessary to perform such steps.

(c) Exercised PDRs shall not be entitled to any additional PDR issued or adjustment to the terms of the PDRs in accordance with Condition 8 or Condition 9 which relate to events declared with reference to a record date which is on or after the relevant Exercise Date.

(d) Upon actual delivery or sale of the Shares relating to an exercised PDR, the relevant Shares shall be released from the Pledge Agreement.

7 **Taxation and Stamp and Other Duties**

(a) The PDR Issuer shall pay for the stock transaction tax, the selling broker's fees and commissions and any transfer or similar fees (including the PDTC ad *valorem rate*) due on the sale of the shares ("Expenses"), upon the exercise by a Holder of a PDR Exercise Right, but not to exceed the prevailing Exercise Price in respect of the PDRs being exercised. Any other taxes, fees or charges in excess of the amount payable by the PDR Issuer on the exercise of a PDR shall be deducted from the net proceeds or shall otherwise be payable by or on behalf of the Holder.

(b) All payments may be subject to withholding or Philippines taxes, if any, at the applicable rates in effect from time to time.

See "Taxation — Philippine Taxation".

8 **Cash Dividends and Other Cash Distributions**

Any cash dividends or other cash distributions distributed in respect of Shares received by the PDR Issuer (or the Pledge Trustee on its behalf) shall be applied toward the operating expenses then due (including but not limited to applicable taxes, fees and listing maintenance costs charged by the PSE) of the PDR Issuer (the "Operating Expenses") for the current and preceding year (as certified by an independent auditor). A further amount equal to the operating expenses in the preceding year (as certified by an independent auditor) (the "Operating Fund") shall be set aside to meet operating or other expenses for the succeeding year. Any amount in excess of the aggregate of the Operating Expenses paid and the Operating Fund for such period (as certified by the independent auditor of the PDR Issuer) shall be distributed to Holders pro rata on the first Business Day after such cash dividends are received by the PDR Issuer.

Operating Expenses are expected to include registration fees and listing fees for additional PDRs created, PSE charges, fees for the PDR Agent and the Pledge Trustee, auditors' fees, directors' fees and administrative expenses in connection with, among other things, distribution and publication of notices to Holders. The PDR Issuer estimates that Operating Expenses may amount to ₱2 million per year.

9 **Additional PDRs and Related Adjustments**

The PDR Issuer shall, subject to Condition 10, issue additional PDRs or make such adjustments to the terms of the PDRs as set out in this Condition 9.

(a) ***Distribution of Shares***

Whenever the PDR Issuer shall receive or become entitled to receive from the Company any distribution in respect of the Shares which consists of a free distribution of Shares, the PDR Issuer shall grant additional PDRs to Holders in respect of such distributions.

In the event that the Company grants an option to elect to receive Shares or cash in respect of a dividend, the PDR Issuer undertakes that it will in all circumstances elect to receive Shares.

(b) ***Distribution Other than in Cash or Shares***

Whenever the PDR Issuer shall receive or become entitled to receive from the Company any distribution in securities (other than Shares) or in other property (other than cash) in respect of the Shares subject to the PDRs, the PDR Issuer shall forthwith procure delivery of such securities or other property pro rata to Holders or otherwise to the order of the Holder, subject to compliance with applicable laws and regulations in the Philippines.

If delivery of such securities or other property (or any part thereof) pro rata to Holders is not permitted under Philippine law, the PDR Issuer, in lieu of such delivery, shall cause the sale of such securities or other property for sale in accordance with applicable laws and regulations in the Philippines and procure that the net proceeds of such sale are applied as provided in Condition 8.

(c) ***Rights Issues***

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire shares, securities or other assets by way of rights, the PDR Issuer shall give notice of such rights offer to the Holders in accordance with Condition 16 and such other notice as the PDR Agent may direct. The PDR Issuer shall, upon receipt of the relevant subscription price (including all costs and expenses related to the exercise of the rights) from Holders, be required to exercise such rights and, subject to applicable laws and regulations in the Philippines, shall exercise such rights in respect of Shares subject to the PDRs with respect to such Shares, securities or other assets. New Shares acquired by way of rights shall be treated as a distribution of Shares as described in Condition 9(a). Securities or other assets acquired by way of rights shall be treated as a distribution other than in cash or Shares as described in Condition 9(b).

In such event, an amount equivalent to the price paid for such new Shares shall be allocated by the PDR Issuer as the Deposit and the PDR Option Price attributable to each such new PDR.

Any rights in respect of Shares not so exercised two Business Days before the offer or invitation is due to expire shall be permitted by the PDR Issuer to lapse.

In order to comply with requirements in connection with certain securities legislation of the United States, each Holder subscribing for securities from the Company by way of rights will be required to certify that (a) neither the person exercising such rights nor any person on whose behalf such rights are being exercised is a US person or a person within the United States (as such terms are used in Regulation S) or (b) the person exercising such rights and any person on whose behalf such rights are being exercised is a QIB that is a Qualified Purchaser. A Holder making the certification in clause (b) above will be required to sign a letter substantially in the form of the U.S. Purchaser's Letter.

(d) ***Capital Reorganization***

Upon any change in the par value, sub-division, consolidation or other reclassification of Shares or upon any reduction of capital or upon any reorganization, merger, or consolidation of the Company or to which it is a party, the Company shall give notice of such event to the Holders. The PDR Issuer shall, in consultation with an investment bank of international repute, adjust the PDR Exercise Right in respect of the number of Shares to be delivered or sold on exercise of PDR or the exchange of PDRs for new PDRs which reflect the effect of such change.

(e) ***Offer***

Upon any general offer for the Shares by the Company (pursuant to any repurchase arrangements in respect of Shares) or by any other person, the Company and the PDR Issuer shall give notice of such event to Holders in accordance with Condition 17. Following any such event, if any PDR is exercised whilst such offer is open for acceptance, the Holder may direct that any Shares to be sold on such exercise are sold through an Eligible Broker to such offeror for those Shares and the net proceeds of such sale are paid as provided in Condition 12 to or to the order of the Holder.

(f) ***Analogous Events***

In the event that the Shares become entitled to any rights, which are not provided above, or an event occurs which is analogous to any event described above, the Agent shall, in consultation with an investment bank of international repute, treat such entitlement or event in any manner set out in this Condition or otherwise so as to distribute or otherwise pass on the economic equivalent of such rights or analogous event under the PDRs.

(g) ***Adjustments to the PDR Exercise Right, Exercise Price and Deposit***

Upon the occurrence of any of the events described in Condition 9 (a), (b), (c), (d), (e) or (f) above, the PDR Issuer shall, upon the recommendation of an investment bank of international repute, make such adjustments to the Exercise Price and the Deposit or the PDR Exercise Right, if it determines that the issue of additional PDRs is inadequate, and such adjustment is necessary, to preserve the economic equivalent of the obligations of the PDR Issuer under the PDRs.

10 Fractional Entitlements and Odd Lots

(a) If more than one PDR is exercised at any one time or additional Shares are to be received by the PDR Issuer in accordance with Condition 9, the number of Shares to be delivered upon exercise or received by the PDR Issuer following such exercise or adjustment will be calculated on the basis of the aggregate number of PDRs to be exercised or which have not been exercised, as the case may be.

(b) No fraction of a Share shall be delivered on exercise of the PDRs or received by the PDR Issuer following an adjustment to the Shares held by the PDR Issuer in accordance with Condition 9.

(c) Additional PDRs will only be issued in accordance with Condition 9 if it is possible to issue at least one PDR to each Holder pro rata to his holding of PDRs.

11 Undertakings in relation to the PDRs

(a) The PDR Issuer has agreed in the PDR Instrument that:

(i) It will, unless prohibited by applicable laws or regulations, give its consent and use its best endeavors to facilitate any distribution, sale or subscription pursuant to the PDRs;

(ii) It will not alter, modify or otherwise change its Articles of Incorporation or By-Laws or take any other action so as to materially prejudice any rights in relation to the PDRs;

(iii) It will, at all times within the period stated herein, own sufficient Shares to discharge its obligation under the PDRs, and for this purpose, it shall immediately deposit and pledge with the Pledge Trustee, the stock certificates (if certificated) and the Shares lodged with the PDTC covering the total Shares as may be adjusted from time to time to be conveyed to the Holders assuming full exercise of the PDRs, all of which are fully paid and non-assessable, duly endorsed or with transfer powers attached, free from pre-emptive right, right of first refusal or other similar rights held by or granted for the benefit of any other person; ensure that the same are not withdrawn from the Pledge Agreement, escheated, sequestered, sold, disposed of, mortgaged, pledged or otherwise encumbered or attached or garnished upon orders of any governmental agencies, courts or tribunals; and guarantee that upon exercise of the PDR Exercise Right, the Shares will be duly and validly transferred or sold to the order of the Holder exercising the PDR Exercise Right;

(iv) It will not amend or make any supplement to this Instrument or in any way modify the PDR Exercise Rights or attach any restrictions thereto without the approval of Holders in an Extraordinary Resolution (as hereinafter defined);

(v) It will not engage in any other business or purpose, except to issue PDRs over the Shares and for such purpose to own the Shares underlying such PDRs and to perform its obligations under the terms of the PDR Instrument;

(vi) It will not incur any obligations, debt or liabilities, or incur or permit to exist any indebtedness, act as surety, endorse any draft, bill or note on behalf of third parties or otherwise incur any monetary obligation which would in any way materially or; adversely affect its ability to meet its obligations under the PDR Instrument;

(vii) It will use its best endeavors to maintain the listing on the Philippine Stock Exchange of the PDRs and to ensure that said listing shall not be suspended, revoked or cancelled by the Philippine Stock Exchange or the Securities and Exchange Commission; and

(viii) It will maintain its status as a Philippine Person.

(b) The PDR Issuer has agreed to cause the Company:

(i) Unless prevented by applicable law or regulation, to give its consent and use its best endeavours to facilitate any distribution, sale or subscription pursuant to the PDRs;

(ii) Not to alter, modify or otherwise change its Articles of Incorporation or By-Laws or take any other action so as to materially prejudice the rights in relation to the PDRs;

(iii) To maintain the listing on the Philippine Stock Exchange of the Shares and to ensure that such listing will not be suspended, revoked or cancelled by the Philippine Stock Exchange or the Securities and Exchange Commission;

(iv) To send to each Holder, at the same time as the same are sent to its shareholders, audited accounts and all other notices, reports and communications dispatched by it to shareholders generally, including the occurrence of any of the events described in Conditions 8 and 9, it being understood that this is only for purposes of information, and that Holders shall not be entitled to dividends, voting rights or other shareholders rights in relation to the Shares until the exercise of the PDR Exercise Rights;

(c) The PDR Issuer has agreed to cause Gilberto R. Duavit, Felipe L. Gozon and Marcelo G. Jimenez, pursuant to a guaranty to be dated on or about July 16, 2007:

(i) In the event that the PDR Issuer is unable to pay the Operating Expenses due to insufficiency of funds arising out of the failure of the Company to declare and pay sufficient cash dividends necessary to pay such Operating Expenses, the PDR Issuer's shareholders will advance such Operating Expenses; and

(ii) To maintain their proportionate shareholding as of the Listing Date and control in the outstanding equity of the PDR Issuer.

12 **Payments**

Any payment of cash in relation to the PDRs shall be made to or to the order of the Holder in Pesos by check drawn upon a bank in Metro Manila.

13 **Resignation and Termination**

In the event that the PDR Issuer terminates the appointment of any of the PDR Agent, the Registrar or the Pledge Trustee or if any of the PDR Agent, Registrar or Pledge Trustee resigns its appointment, the PDR Agent, Registrar or Pledge Trustee (as the case may be) shall (against payment of all fees and expenses due from the PDR Issuer to the relevant party) transfer its rights and obligations to such successor agent, registrar or security agent appointed by the PDR Issuer. Subject to payment of such fees and expenses as aforesaid the PDR Agent, Registrar or Pledge Trustee (as the case may be) shall deliver to its respective successor sufficient information and records to enable such successor to perform its obligations. Notice of any termination or appointment and of any change in the office of the PDR Agent, Pledge Trustee or Registrar will be given to Holders within seven days of the effect of such change.

14 **Issuance of New PDRs**

The PDR Issuer may, subject to applicable laws, issue additional PDRs with the same terms and conditions as existing PDRs from time to time so that such further issue shall be consolidated and form a single series with outstanding PDRs.

15 **Subsequent Exchanges**

At any time after the Combined Offer, a shareholder may, at his option and from time to time, deliver Common Shares to the PDR Issuer to be exchanged for an equal number of PDRs, subject to the registration (or exemption, as the case may be) and listing of the new PDRs created for such purpose (a "Subsequent Exchange"). Any stock transaction tax, documentary stamp tax, fees and expenses relating to the transfer of the Common Shares to the PDR Issuer and the applicable registration fees and listing fees pertaining to such additional PDRs, pursuant to the Subsequent Exchanges shall be for the account of the shareholder. The PDR Issuer undertakes to file a registration statement or seek an exemption from registration, as may be applicable, with the SEC and a listing application with the PSE for new PDRs within 15 days from receipt of notices from shareholders to exchange at least 3 million Common Shares to PDRs."

16 Expropriation or Liquidation

(a) If all the Shares or all the assets or substantially all of the assets of the Company are nationalized, expropriated or otherwise required to be transferred to any governmental agency, authority or entity; or

(b) By reason of the liquidation, winding up or dissolution of the Company (i) all the Shares are required to be transferred to any trustee, liquidator or other similar official or (ii) all holders of the Shares become legally prohibited from transferring them;

the PDR Issuer shall pay or deliver to the Holders such cash or assets received upon expropriation or liquidation pro rata to their interest in PDRs as and by way of return of their Deposit, after which, the PDRs, including the PDR Exercise Rights and other rights under the PDRs, shall forthwith terminate.

17 Notices

(a) All Certificates, notices, checks and other documents required or permitted by these Conditions to be dispatched to a Holder or to which a Holder is entitled or which the PDR Issuer shall have agreed to deliver to a Holder may be delivered by hand or dispatched by post addressed to the Holder (otherwise than in accordance with an Exercise Notice) at his registered address or, in the case of joint Holders addressed to the joint Holder first named in the Register at his registered address, and airmail post shall be used if that address is not in the Philippines. All documents delivered or sent in accordance with this Condition shall be delivered or dispatched at the risk of the relevant Holder.

(b) All notices to the Holders will be validly given if published in one leading English language newspaper circulating in London and New York City and one leading English language newspaper circulating in Manila. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the PDR Issuer may determine. In addition, copies of the notices will be dispatched by mail to Holders at their addresses appearing in the Register.

18 Meetings of Holders; Modification

(a) The PDR Issuer may, at any time prior to Expiry Date on its own initiative or at any time upon a request in writing of the Holders holding not less than one-tenth in number of the PDRs for the time being outstanding, convene a meeting of Holders.

(b) Notice specifying the day, time and place of the meeting shall be given to the Holders at least 21 days prior to the date set for the meeting (exclusive of the day on which notice is given and of the day on which the meeting is to be held).

(c) At any meeting, any two or more persons present, in person holding PDRs or being proxies, and holding in aggregate not less than one-tenth in number of the PDRs for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum (except for the purpose of passing an Extraordinary Resolution) is present at the commencement of business. Any resolution, except an Extraordinary Resolution, shall be considered approved when passed in a duly convened meeting by not less than a majority of the votes cast by Holders as being entitled to do so, whether voting in person or by proxy.

(d) The quorum at any meeting for passing an Extraordinary Resolution to modify or vary the rights of Holders shall be two or more persons present holding PDRs or being proxies and holding in the aggregate two-thirds of the outstanding PDRs for the time being. An Extraordinary Resolution shall be passed in a duly convened meeting upon the affirmative vote or at least two-thirds of the outstanding PDRs. An Extraordinary Resolution passed at a meeting of Holders duly convened and held shall be binding upon the Holders, whether or not present at such meeting, and each of the Holders shall be bound to give effect to it accordingly.

(e) PDRs which have not been exercised but in respect of which an Exercise Notice has been deposited will not confer the right to attend or vote at, or join in convening, or be counted in the quorum for, any meeting of the Holders.

(f) At any meeting, on show of hands, every Holder who is present in person or in the case of a corporation, by duly authorized representatives, and person who is a holder of a proxy from a Holder shall have one vote in respect of each PDR registered in his name or in respect of which he is a proxy or a corporate representative. Any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way; and

(g) The rights attached to the PDRs may be varied or abrogated by an instrument or other agreement executed by or on behalf of the PDR Issuer subject to the proposed variation or abrogation first being approved by an Extraordinary Resolution of the Holders. The PDR Issuer may, without the consent of the Holders, effect any modification of the provisions of the PDRs or the PDR Instrument which is of a formal, minor or technical nature, or to correct an obvious error or is necessary in order to comply with mandatory provisions of the laws of the Philippines or the rules of the Philippine Stock Exchange. Any such modification shall be binding on the Holders and shall be notified to them by the PDR Issuer in accordance with Condition 15 as soon as practicable thereafter. The issue of new PDRs pursuant to Condition 14 or the termination of the PDR Exercise Rights pursuant to Conditions 5(b) and 16 shall not require consent of the Holders.

19 Closure of Register

The registration of transfers may be suspended and the Register may be closed for such period as the Directors of the PDR Issuer may from time to time announce with the approval of Philippine Stock Exchange, provided that the same cannot be closed for a period of more than 15 days at any one time; or more than 60 days throughout the Exercise Period. Any transfer, or exercise of the PDR Exercise Right made while the Register is so closed shall, as between the PDR Issuer and the person claiming under the relevant transfer of PDRs or, as the case may be, as between the PDR Issuer and the Holder who has so exercised the PDR Exercise Right, be considered as made immediately after the reopening of the Register.

20 Governing law

The PDRs and the PDR Instrument shall be governed by and construed in accordance with Philippine law.

DESCRIPTION OF THE PLEDGE AGREEMENT

The Pledge Agreement

The following is a summary, subject to completion and amendment, only of certain provisions of the Pledge Agreement and subject to the detailed provisions thereof.

The obligations of the PDR Issuer to deliver Shares on exercise of the right contained in the PDRs are secured to the extent provided under the Pledge Agreement which is governed by Philippine law.

(A) Security: Under the Pledge Agreement, the PDR Issuer has agreed, *inter alia*;

(i) on the Listing Date, to pledge in favor of the Pledge Trustee on behalf of the Holders of PDRs the Shares underlying the PDRs in respect of which PDRs are issued at that time; and

(ii) where additional PDRs are granted to the Holders in the circumstances set out in Condition 9 of the Terms and Conditions, to pledge in favor of the Pledge Trustee on behalf of the Holders of PDRs the Shares underlying PDRs in respect of which such additional PDRs are issued at such time.

The Pledge Agreement will only take effect on such delivery and supplementing the Pledge Agreement by way of additional annexe(s) describing the relevant property being pledged. Under the Pledge Agreement, the PDR Issuer has authorized the Pledge Trustee to effect such supplement(s) on its behalf.

(B) Registered Owner/Voting Rights/Information: Pending exercise of PDRs, the PDR Issuer will remain the registered owner of the Shares underlying the PDRs and retain the voting rights in respect of those Shares. However, the PDR Issuer has directed the Company to deliver or, if applicable, to deliver all notices, sets of account or other documents relating to the Shares to the Pledge Trustee.

(C) Authority to perform: Under the Pledge Agreement, the PDR Issuer has authorized the Pledge Trustee to carry out on its behalf all steps necessary to effect sale and/or delivery of Shares pursuant to the PDRs.

(D) Foreclosure: Enforcement of the Pledge Agreement will in the first instance be effected by the Pledge Trustee performing the PDR Issuer's obligations under the PDRs on its behalf (and the Pledge Trustee shall in any event be so authorized whether for enforcement or not — see paragraph (C) above). However, if enforcement through performance is prohibited or is not permitted or is otherwise not possible, then the Pledge Trustee shall foreclose the Pledge Agreement. In that event, the Pledge Trustee shall foreclose the Pledge Agreement in respect of all Shares which are subject to the Pledge Agreement to the extent that performance is prohibited, not permitted or not possible. Under Philippine law, sale of property pursuant to foreclosure is generally required to be by way of public auction.

Certain Enforcement Considerations

Set out below is a summary of certain Philippine legal considerations relating to the enforceability of the PDRs and the effectiveness of the Pledge Agreement prepared by the Philippine legal adviser to the Underwriters of the Combined Offer.

The Pledge Agreement is intended to create a security interest over the pledged Shares in order to insulate such shares from the credit risk associated with the PDR Issuer. Under Philippine law, a pledge of shares of stock does not involve a conveyance of title over the shares. Philippine law requires that there be a transfer of physical custody of the certificates evidencing the shares to the pledgee or a third party, the description of the pledged shares in a public instrument (i.e., a notarized document) and that such instrument be dated. In the case of scripless shares, the Shares are marked as pledged in the PDTC system.

The Pledge Agreement is consistent with the concept that the PDR Issuer has not parted with title over the pledged Shares and that the PDR Issuer continues to enjoy the right to vote such Shares.

In the event of a supervening insolvency of the PDR Issuer, the rights of the Pledge Trustee will be governed by the provisions of Act 1956 (the "Insolvency Law"). Under the said statute, the Pledge Agreement will remain as a preferred lien over the pledged Shares. It will continue to be respected by the assignee in insolvency. The only types of credit which have a preference over the Pledge Agreement constituted in favor of the Pledge Trustee are duties and taxes due on the Shares under Articles 2241 and 2243 of the Civil Code of the Philippines.

With respect to the pledged Shares, the application of Articles 2241 and 2243 means that if there are any duties, taxes and fees due on the Shares to the Republic of the Philippines or any subdivision thereof, such pledged Shares will have to be applied first to satisfy the payment of such duties, taxes and fees. After satisfaction thereof, the pledged Shares will then be used to satisfy the claims of the Pledge Trustee.

The Insolvency Law provides the secured creditor (in this case, the Pledge Trustee) with the option of either (a) relying upon his security and foreclosing thereon, (b) fixing the value of the security and participating in the insolvency proceedings as creditor to the extent of the balance of the debt not covered by the value of the security, (c) surrendering such security to the assignee in insolvency and participating in the insolvency proceedings as creditor for the full amount owed by the insolvent debtor. If the secured creditor opts to rely entirely on his security, then such secured creditor may, after obtaining leave of the insolvency court, foreclose upon the pledged Shares but will not be able to participate in the insolvency proceedings.

It should be noted that Section 70 of the Insolvency Law enumerates "voidable preferences". Section 70 provides that if any debtor being insolvent, or in contemplation of insolvency, within 30 days before the filing of a petition by or against such debtor, with a view to giving a preference to any creditor or person, commits any of the acts enumerated in Section 70, such attachment, sequestration, payment, pledge, mortgage, transfer, sale, assignment or conveyance is void and the assignor or receiver may recover the property for the value thereof, as assets of the insolvent.

For these purposes a company is treated as insolvent when its assets are insufficient to meet its liabilities.

In recent times, rehabilitation with suspension of payments has been the remedy resorted to by a distressed corporate debtor because of certain advantages accorded by the law and by jurisprudence. Rehabilitation with suspension of payments is governed by Republic Act No. 8799 (otherwise known as the "Securities Regulation Code"), which amended Presidential Decree 902-A, and the Interim Rules of Procedure on Corporate Rehabilitation promulgated by the Philippine Supreme Court as Administrative Matter No. 00-18-SC and effective as at December 15, 2000. Under the Securities Regulation Code, jurisdiction over all

> "Petitions of corporations, partnerships or associations to be declared in the state of suspension of payments in cases where the corporation, partnership or association possesses sufficient property to cover all its debts but foresees the

impossibility of meeting them when they respectively fall due or in cases where the corporation, partnership or association has no sufficient assets to cover its liabilities, but is under management of a Rehabilitation Receiver or Management Committee created pursuant to Presidential Decree 902-A"

have been transferred to Courts of general jurisdiction or the appropriate Regional Trial Court designated by the Philippine Supreme Court. Pursuant to the Securities Regulation Code, the Philippine Supreme Court promulgated the Interim Rules of Procedure on Corporate Rehabilitation (the "Rehabilitation Rules").

Upon finding that a petition for corporate rehabilitation is sufficient in form and substance, the rehabilitation court issues a stay order (the "Stay Order") staying the enforcement of all claims, whether for money or otherwise against the corporate debtor, its guarantors and sureties, not solidarily liable with the corporate debtor and prohibiting the debtor from (a) selling, transferring or disposing in any manner any of its properties other than in the ordinary course of business, or (b) making any payment of liabilities outstanding as at the date of filing of the petition.

Following the issuance of the Stay Order, all secured creditors, including the Pledge Trustee, will not be able to enforce their security unless the Stay Order is terminated or modified to permit enforcement of the security. The rehabilitation court may terminate or modify the Stay Order upon a showing that (a) any of the allegations or the petition or attachments thereto have ceased to be true; (b) a creditor does not have adequate protection over the property securing its claim, such as when the debtor fails or refuses to take commercially reasonable steps to maintain the property or the property has depreciated to an extent that the creditor is undersecured; or (c) the debtor's secured obligation is more than the fair market value of the property subject of the stay and such property is not necessary for the rehabilitation of the debtor.

The Stay Order shall be effective from the date of its issuance until the dismissal of the petition or the termination of the rehabilitation proceedings. The petition shall be dismissed if no rehabilitation plan is approved by the court upon the lapse of 180 days from the date of the initial hearing, unless such period is extended by the court. In no instance, however, shall the period for approving or disapproving a rehabilitation plan exceed 18 months from the date of filing of the petition.

Notwithstanding the effectivity of the Stay Order, the Pledge Agreement will remain as a preferred lien over the pledged Shares. The Pledge Trustee shall have the benefit of the security of the pledged Shares and shall remain a secured creditor throughout the rehabilitation proceedings and upon completion thereof. Once the rehabilitation proceedings are terminated, the secured creditors may foreclose on their security.

DESCRIPTION OF THE SHARES

The following is general information relating to the Company's capital stock but does not purport to be complete or to give full effect to the provisions of law and is in all respects qualified by reference to the applicable provisions of the Company's amended articles of incorporation and amended by-laws.

Share Capital

As at the date of this Prospectus, the authorized capital stock of the Company is ₱6,500,000,000 divided into 5,000,000,000 Common Shares with a par value of ₱1.00 per share, and 7,500,000,000 Preferred Shares with par value of ₱0.20 per share. The Company has 3,125,000,000 outstanding common shares and 7,500,000,000 outstanding preferred shares.

Voting Rights of Common Shares

All Common Shares of the Corporation shall enjoy the same rights and privileges.

Each Common Share entitles the holder to one vote.

At each meeting of the Shareholders, every Shareholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Company at the time of the closing of the transfer books for such meeting.

In accordance with Section 24 of the Corporation Code, at each election of directors, every Shareholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him as at the relevant record date for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number his shares shall equal or by distributing such votes on the same principle among any number of candidates as the Shareholder shall see fit.

Dividend Rights of Common Shares

Dividends shall be declared only from the surplus profits of the corporation and shall be payable at such times and in such amounts as the Board of Directors shall determine, either in cash, shares or property of the Company, or a combination of the three, as said Board of Directors shall determine. The declaration of stock dividends, however, is subject to the approval of at least two-thirds of the outstanding capital stock. No dividend which will impair the capital of the corporation shall be declared.

Rights of Common Shares to Assets of Company

Subject to the preferential rights of Preferred Share holders described below, each holder of a Common Share is entitled to a pro rata share in the assets of the Company available for distribution to the shareholders in the event of dissolution, liquidation and winding up.

Other Features and Characteristics of Common Shares

All of the Company's issued Common Shares are fully paid and non-assessable and are free and clear of all liens, claims and encumbrances. All documentary stamp taxes due on the issuance of all issued Common Shares have been fully paid.

Preferred Shares

The Preferred Shares shall have the following features:

- All Preferred Shares shall be of equal rank, preference and priority and shall be identical in all respects regardless of series.

- Each Preferred Share shall have a par value of ₱0.20 each.

- Preferred Shares receive dividends at a rate of one-fifth of the dividend paid to Common Shares (which rate shall be adjusted proportionately by the Board of Directors consequent to any stock split or stock dividend declaration affecting the Common Shares and the Preferred Shares).

- Preferred Shares shall be convertible, at the option of the shareholder, at the rate of five Preferred Shares to one Common Share based on par value subject to the approval of the Board of Directors.

- Preferred Shares shall enjoy priority over Common Shares in the distribution of assets of the Corporation in the event of its dissolution and liquidation, at such rates and conditions as the Board of Directors may determine.

- Each Preferred Shares shall be entitled to one vote and shall have the same voting rights as the Common Shares.

- The Board of Directors may specify other terms and conditions, qualifications, restrictions and privileges of the Preferred Shares or series/classes thereof, insofar as such terms, conditions, qualifications, restrictions and privileges are not inconsistent with Article Seven of the corporation's Amended Articles of Incorporation.

Pre-Emptive Rights

Unless otherwise determined by the Board of Directors, no holder of stock of the corporation shall be entitled, as a matter of right, to purchase or subscribe to any stock of any class which the corporation may issue or sell, whether or not exchangeable for any stock of the corporation of any class or classes, out of unissued shares authorized by the articles of incorporation of the Corporation, or out of shares of stock of the corporation acquired by it after the issue thereof, nor shall he be entitled to any right of subscription to any thereof, nor, unless otherwise determined by the Board of Directors, shall any holder of any shares on the capital stock of the corporation be entitled as such, as a matter of right, to purchase or subscribe for any obligation which the corporation may issue or sell that shall be convertible into or exchangeable for any shares of the stock of the corporation of any class or classes, or to which shall be attached or appurtenant any warrant or warrants or other instrument or instruments that shall confer upon the holder or holders of such obligation the right to subscribe for or purchase from the corporation any shares of its capital stock of any class or classes.

Appraisal Rights

Under Philippine laws, shareholders dissenting from the following corporate actions may demand payment of the fair value of their shares in certain circumstances:

- in case any amendment to the corporation's articles of incorporation has the effect of changing and restricting the rights of any shareholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class;

- in case of any sale, lease, exchange, transfer, mortgage or other disposition of all or substantially all of the corporate property or assets;

- in case of merger or consolidation;

- in case the corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose; and

- extension or shortening of the term of corporate existence.

The appraisal right may be exercised by a stockholder who shall have voted against any of the foregoing corporate actions proposed in a meeting by making written demand on the corporation for the payment of the fair value of his/its shares within 30 days after the date on which the vote is taken. Failure to make written demand within such period shall be deemed a waiver of such right. If the proposed action is implemented, the corporation shall pay to a stockholder surrendering his/its stock certificates the fair value of such shares as at the day prior to the date on which the vote was taken; however, no payment shall be made to any stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment. Within ten days after demanding payment for his shares, a dissenting stockholder shall submit his stock certificates for notation thereon that such shares are dissenting shares, failing which, his/its appraisal right shall, at the option of the corporation, terminate. Upon payment of the purchase price for the shares, the stockholder must transfer his shares to the corporation.

From the time a demand for payment of fair value until either the abandonment of the corporate action involved or the purchase of said shares by the corporation, all rights accruing to such shares, including voting and dividend rights, shall be suspended. If the dissenting stockholder is not paid the value of the shares within 30 days after the award, his voting and dividend rights shall be restored.

Employee Stock Ownership Plan

On April 26, 2007, the Company's Board of Directors and shareholders approved the Company's ESOP. The Company allocated a maximum of 57 million Common Shares from the unissued capital stock of the Company to be made available to the Company's regular employees, talents and consultants under the terms of the ESOP. The purpose of the ESOP is to allow regular employees of the Company and its subsidiaries, as well as qualified Filipino consultants and talents, to be part owners of the Company and to share in its profits by giving them the opportunity to own Common Shares.

Under the terms of the ESOP, a regular employee with at least three years of service with the Company can subscribe to a maximum number of Common Shares equivalent to six times his gross monthly salary at the Offer Price. Employees with less than three years of service can subscribe to a maximum of three times his gross monthly salary at the Offer Price. The Common Shares to be subscribed by the employee however, shall not be less than the minimum set by the Company. In the event that the total number of Common Shares applied for by all employees exceeds the number of Common Shares made available under the ESOP, the number of Common Shares applied for by each employee shall be reduced proportionately.

At least 25% of the subscription must be paid while the balance is payable over a maximum period of one and a half years in 36 equal semi-monthly instalments through payroll deductions, without interest. In the case of talents and consultants, the number of Common Shares allotted shall be determined by the Company while payment shall be covered by a post-dated check of not more than 30 days.

The Common Shares forming part of the ESOP are not subject to any lockup period.

The ESOP is administered by a board of administrators, composed of five members who are appointed by the Company's Board of Directors. The board of administrators shall oversee the implementation of the ESOP and shall decide on any matter which may arise regarding its implementation. The Company's Executive Committee has the authority to modify the terms of the ESOP as it may deem necessary or beneficial for the Company.

Treasury Shares

The Corporation has no treasury shares.

Restrictions on Transfer of Stock and Foreign Ownership

The transfer of the shares of the capital stock of the corporation to non-Filipino citizens or to corporations or associations not wholly owned and managed by Filipino citizens is prohibited and any such transfer shall be deemed null and void and will neither be recognized nor registered in the books of the corporation.

Stock Transfer Agent

The Company's share register is maintained at the principal office of the Company's share transfer agent, Stock Transfer Service, Inc., located at 8th Floor Phinma Plaza Drive, Rockwell Center, Makati City, Philippines.

Change in Control

Articles of Incorporation and By-laws

There are no existing provisions in the amended articles of incorporation or the amended by-laws of the Company which will delay, defer or in any manner prevent a change in control of the Company.

MARKET PRICE OF AND DIVIDENDS ON THE COMPANY'S SHARES AND RELATED SHAREHOLDER MATTERS

Market Information

Prior to the Combined Offer, there has been no public trading market for any of the Company's Common and Preferred Shares.

Holders of the Company's Common and Preferred Shares

As at the date of this Prospectus, there were 41 holders of record of the Company's Common and Preferred Shares. The top 20 holders, in order of family affiliation and by individual, are set forth in the following table:

	Common Shares	Percentage of Total Common Shares(1)	Preferred Shares	Percentage of Total Preferred Shares(1)	Percentage of Total Outstanding Capital Stock(1)	Nationality
Group Management & Dev't., Inc (Duavit)	1,094,085,545	35.01%	2,625,805,308	35.01%	35.01%	Filipino
FLG Management & Dev't. Corp (Gozon)	908,778,295	29.08%	2,181,067,908	29.08%	29.08%	Filipino
Gozon Development Corp.	19,268,877	0.62%	46,245,306	0.62%	0.62%	Filipino
Gozon Foundation, Inc.	6,258,613	0.20%	15,020,670	0.20%	0.20%	Filipino
M.A. Jimenez Enterprises, Inc.	628,741,177	20.12%	1,508,978,826	20.12%	20.12%	Filipino
Television International Corp. (Jimenez)	463,192,338	14.82%	1,111,661,610	14.82%	14.82%	Filipino
Alegria F. Sibal	1,093,252	0.03%	2,623,806	0.03%	0.03%	Filipino
Jose P. Marcelo	501,498	0.02%	1,203,594	0.02%	0.02%	Filipino
Sotero H. Laurel	346,127	0.01%	830,706	0.01%	0.01%	Filipino
Rose Laurel-Avancena	346,140	0.01%	830,736	0.01%	0.01%	Filipino
Nita Laurel Yupangco	346,127	0.01%	830,706	0.01%	0.01%	Filipino
Jose C. Laurel V	346,127	0.01%	830,706	0.01%	0.01%	Filipino
Juan Miguel Laurel	346,127	0.01%	830,706	0.01%	0.01%	Filipino
Susana Laurel-Delgado	346,127	0.01%	830,706	0.01%	0.01%	Filipino
Ma. Asuncion Laurel-Uichico	346,127	0.01%	830,706	0.01%	0.01%	Filipino
Horacio P. Borromeo	326,735	0.01%	784,164	0.01%	0.01%	Filipino
Rafael R. Recto	115,956	0.01%	492,816	0.01%	0.00%	Filipino
Carmen G. Recto	89,383	0.00%	—	—	0.00%	Filipino
Francis F. Obana	43,800	0.00%	105,120	0.00%	0.00%	Filipino
Eduardo Morato	15,845	0.00%	38,028	0.00%	0.00%	Filipino
Antonio Gomez	12,675	0.00%	30,420	0.00%	0.00%	Filipino

(1) 0.00% shareholdings represent percentages of less than 0.01% and greater than 0.

Description of Major Shareholders

FLG Management and Development Corporation is in the business of acquiring property, assets, business, capital stock, goodwill and rights of any person or corporation, and of holding, managing, administering or in any manner disposing of the whole or any part of the property and assets so acquired. It has an authorized capital stock of ₱20 million, out of which ₱10.6 million has been subscribed.

Gozon Development Corporation is primarily engaged in mining and agriculture. It has an authorized capital stock of ₱15 million out of which, ₱14.4 million has been subscribed.

Gozon Foundation, Inc. is a non-stock corporation formed for religious and charitable purposes. No income received by it shall be distributable as dividends to its trustees but shall be used in the furtherance of the purposes for which it was organized.

Group Management and Development, Inc. is a general contractor of services. It has an authorized capital stock of ₱500 million, out of which ₱203.9 million has been subscribed.

M.A. Jimenez Enterprises, Inc. is engaged in the manufacture, production, development, and dealing in and with industrial and agricultural products and by-products, machinery, accessories, spare parts, devices, gadgets, supplies, merchandise, and in the livestock business. It has an authorized capital stock of ₱10 million, all of which are issued.

Television International Corporation is engaged in the general and integrated business of radio and television entertainment, advertising, marketing and promotions of services. It has an authorized capital stock of ₱20 million, all of which are issued.

Dividends

Dividends shall be declared only from the surplus profits of the corporation and shall be payable at such times and in such amounts as the Board of Directors shall determine, either in cash, in property, or in shares of stock of the company, or any combination of the three, as said Board of Directors shall determine. No dividend which will impair the capital of the corporation shall be declared. However, declaration of stock dividends requires the approval of Shareholders representing at least two-thirds of the outstanding capital stock at a Shareholder's meeting duly called for that purpose.

Dividend History of the Company

Year	Amount	Date Declared	Type of Dividend
2004	₱286,000,000.0	November 9, 2004	Cash
2005	₱218,521,203.5	February 17, 2005	Cash and Property
2005	₱3,000,000,000.0	October 11, 2005	Stock
2006	₱1,150,000,000.0	June 13, 2006	Cash and Property
2007	₱1,500,000,000.0	March 19, 2007	Cash
2007	₱375,000,000.0	April 26, 2007	Stock
2007	₱1,000,000,000.0	July 2, 2007	Cash

For information on the Company's dividend policy, see the section entitled "Dividend Policy" on page 48 of this Prospectus.

Recent Sales of Unregistered or Exempt Securities

No sale of unregistered or exempt securities of the Company has occurred within the past three years.

PLAN OF DISTRIBUTION

91,346,000 Common Shares and 182,692,000 PDRs relating to 182,692,000 Common Shares are being offered for subscription in the Philippines by the Domestic Underwriters. 639,423,000 PDRs relating to 639,423,000 Common Shares are being offered for subscription outside the Philippines by the International Lead Manager. The Domestic Underwriters will underwrite on a firm basis the Offer Shares and PDRs subject of the Domestic Offer and the International Lead Manager will underwrite on a firm basis the PDRs subject of the International Offer. There is no arrangement for any of the Domestic Underwriters to put back to the Company any of the Offer Shares and PDRs subject to the Domestic Offer.

The allocation of the PDRs between the Domestic Offer and the International Offer is subject to adjustment. In the event of an under-application in the International Offer and if there is a corresponding over-application in the Domestic Offer, PDRs in the International Offer may be (at the option of the Domestic Lead Underwriter and with the consent of the International Lead Manager) reallocated to the Domestic Offer. If there is an under-application in the Domestic Offer and if there is a corresponding over-application in the International Offer, PDRs in the Domestic Offer may be (at the option of the International Lead Manager and with the consent of the Domestic Lead Underwriter) reallocated to the International Offer. The reallocation shall not apply in the event of over-application in both the Domestic Offer and the International Offer.

The Company and the Selling Shareholders shall pay the International Lead Manager and Domestic Lead Underwriter a pre-agreed underwriting fee and selling commission upon receipt by the Company and the Selling Shareholders of the Combined Offer proceeds pursuant to their respective Underwriting Agreements, out of which the International Lead Manager and Domestic Lead Underwriter will cede to the Participating Underwriters and Selling Agents, if any, their corresponding respective underwriting fees and selling commissions. The underwriting and selling fees to be derived by the International Lead Manager and Domestic Lead Underwriter from the Combined Offer shall be based on a fee of up to 2.5% of the gross proceeds of the Combined Offer, inclusive of amounts to be paid to other Participating Underwriters and Selling Agents, where applicable.

The Domestic Offer

The Underwriting Agreement to be entered into between the Company, the Selling Shareholders, the PDR Issuer and the Domestic Underwriters (the "Domestic Underwriting Agreement") is subject to certain conditions and may be subject to termination by the Domestic Lead Underwriter if certain circumstances, including *force majeure*, occur on or before the Common Shares and the PDRs are listed on the PSE. Likewise, the Domestic Underwriting Agreement is conditional, *inter alia*, on the Common Shares and PDRs being listed on or before July 30, 2007, or such later date as the Domestic Lead Underwriter may agree. The Company has agreed to indemnify the Domestic Underwriters against certain liabilities, as provided in the Domestic Underwriting Agreement.

The Company plans to make available up to 60,897,000 Offer Shares and 121,795,000 PDRs comprising 20% of the Combined Offer for distribution to the Trading Participants of the PSE. 30,449,000 Offer Shares and 60,897,000 PDRs or 10% of the Combined Offer shall also be made available to Local Small Investors. The term "Local Small Investors" is defined as a subscriber to the Domestic Offer who is willing to subscribe to 1,000 PDRs or 1,000 Offer Shares under the Local Small Investors program. Should the total demand for the Offer Shares and PDRs in the Local Small Investors' subscription exceed the maximum allocation, the Domestic Lead Underwriter shall allocate the Offer Shares and PDRs by balloting.

The Trading Participants of the PSE may be allowed to subscribe for their dealer accounts, provided, that if they opt to sell the Offer Shares and PDRs to their clients during the Offer Period, it must be at a price not higher than the Share Offer Price and PDR Offer Price, respectively. Likewise, the Trading Participants are prohibited from selling the Offer Shares and PDRs during the period after the Offer Period and prior to Listing Date.

The Domestic Lead Underwriter shall inform the PSE of the resulting price of the Offer Shares and PDRs as determined through the bookbuilding. Thereafter, the total number of Offer Shares and PDRs allocated to the Trading Participants will be distributed following the procedures indicated in the implementing guidelines for the Domestic Offer to be distributed by the PSE.

Trading Participants who take up the Offer Shares and/or PDRs shall be entitled to a selling fee of 1.0% of the Domestic Offer Shares and PDRs taken up and purchased by the relevant Trading Participant. The selling fee, less a withholding tax of 10%, will be paid to the Trading Participants within ten banking days after the Listing Date.

The balance of the Offer Shares and PDRs allocated but not purchased by the Trading Participants will be distributed by the Domestic Underwriters. A portion of these Offer Shares and PDRs may be used for a book-building program for the domestic market to be conducted simultaneously with the International Offer. Qualified Institutional Buyers ("QIBs") that may be invited to participate in the bookbuilding process shall be limited to the following: mutual funds, pension or retirement funds, commercial or universal banks, trust companies, investment houses, insurance companies, investment companies, finance companies, venture capital firms, government financial institutions, trust departments of commercial or universal banks, non-bank quasi banking institutions, Trading Participants of the PSE for their dealer accounts, non-stock savings and loan associations, educational assistance funds and other institutions of similar nature determined as such by the SEC.

639,423,000 PDRs or 77.8% of the PDRs will be included in the International Offer (i) outside the Philippines and the United States to non-U.S. persons in reliance on Regulation S under the Securities Act and (ii) in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act. A portion of the PDRs, or, more specifically, up to 80,085,000 PDRs or 12.5% of the PDRs can be clawed back by the Domestic Underwriter on or before July 23, 2007 on receiving written consent from the International Lead Manager.

Up to 34,412,000 of the International Offer PDRs clawed back by the Domestic Underwriter and up to 18,529,000 of the PDRs offered as part of the Domestic Offer may, at the direction of the Company, be allocated to directors, officers or employees of the Company or to their family members.

The Domestic Lead Underwriter and Issue Manager, ATRKE Capital, was incorporated in the Philippines in 1990. It has an authorized capital stock of ₱1 billion, of which approximately ₱760 million represents its paid up capital. ATRKE Capital obtained its license to operate an investment house in 1993 and is licensed by the SEC to engage in underwriting or distribution of securities to the public. Its senior executives have extensive experience in the capital markets and have played leading roles in a substantial number of major equity and debt issues, both locally and internationally. ATRKE Capital has underwritten several public and private offerings of equity and debt in the Philippines since 1993.

The Domestic Lead Underwriter does not have any material relationship with the Company and the PDR Issuer beyond their role in the Combined Offer. All services provided by the Domestic Lead Underwriter in connection with the Combined Offering have been provided as an independent contractor and not as a fiduciary to the Company or the Selling Shareholders. The Domestic Lead Underwriter has no right to designate or nominate any member of the Board of Directors of the Company or the PDR Issuer.

One of the Participating Underwriters, Unicapital, Inc., is an investment house incorporated in the Philippines in 1994 with an authorized capital stock of ₱500 million, ₱300 million of which has been subscribed and paid up. The Company owns 436,491 shares with a par value of ₱100 per share in Unicapital, Inc., equivalent to 14.4% of equity ownership.

The International Offer

The PDR Issuer, through the International Lead Manager, is offering 639,423,000 PDRs relating to 639,423,000 Common Shares (not including the Over-allotment Option described below) in the International Offer (i) outside the Philippines and the United States to non-U.S. persons in reliance on Regulation S under the United States Securities Act of 1933, as amended and (ii) in the United States to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act.

The Underwriting Agreement entered into between the Company, the Selling Shareholders, the PDR Issuer and the International Lead Manager (the "International Underwriting Agreement") is subject to certain conditions and may be subject to termination by the International Lead Manager if certain circumstances, including *force majeure*, occur on or before the PDRs are listed on the PSE. Under the terms and conditions of the International Underwriting Agreement, the International Lead Manager is committed to purchase or procure purchasers for all of the PDRs to be offered in the International Offer. The closing of the International Offer is conditional on the closing of the Domestic Offer and the closing of the Domestic Offer is conditional on the closing of the International Offer. The closing of the Domestic Offer and the International Offer are expected to occur concurrently.

The International Lead Manager does not have any material relationship with the Company and the PDR Issuer beyond their role in the Combined Offer. All services provided by the International Lead Manager in connection with the Combined Offering have been provided as an independent contractor and not as a fiduciary to the Company or the Selling Shareholders.

The Over-allotment Option

In connection with the Combined Offer, each of GHI and the Selling Shareholders have granted the Stabilizing Agent an Over-allotment Option, which is exercisable for 30 days from and including the commencement of the trading of the Company's Common Shares and PDRs on the PSE, to purchase or place up to 123,317,000 PDRs and up to 13,701,000 Common Shares, representing 15% of the offer, on the same terms and conditions as the PDRs and Offer Shares as set forth herein. In addition, the Stabilizing Agent has entered into over-allotment agreements with GHI and the Selling Shareholders to cover over-allotments. Any PDRs of GHI that may be placed by the Stabilizing Agent under the over-allotment agreements will be delivered to GHI either in the form of PDRs purchased in the open market by the Stabilizing Agent in the conduct of stabilization activities or through the exercise of the Over-allotment Option by the Stabilizing Agent. Any Common Shares of the Selling Shareholders that may be placed by the Stabilizing Agent under the over-allotment agreements will be delivered to the Selling Shareholders either in the form of Common Shares purchased in the open market by the Stabilizing Agent on behalf of the Selling Shareholders in the conduct of stabilization activities, or through the exercise of the Over-allotment Option by the Stabilizing Agent.

To comply with the Philippine Constitution's prohibition on foreign ownership in mass media companies, for purchases of Common Shares as part of the stabilization activities, the Stabilizing Agent will make such purchases on behalf of the Selling Shareholders, such that the Stabilizing Agent will not own or hold any Common Shares of the Company.

Up to 13,701,000 Common Shares and up to 123,317,000 additional PDRs may be over-allotted and the Stabilizing Agent may effect price stabilization transactions for a period which shall not exceed 30 days from the Listing Date. The Stabilizing Agent may purchase PDRs or purchase Common Shares on behalf of the Selling Shareholders in the open market only if the market price of the PDRs or Common Shares falls below the Share Offer Price. Such activities may stabilize, maintain or otherwise affect the market price of the PDRs or Common Shares which may have the effect of preventing or retarding a decline in the market price of the PDRs or Common Shares and may also cause the price of the PDRs or Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions, it may discontinue them, as it may determine in its reasonable discretion, at any time. Once the Over-allotment Option has been exercised by the Stabilizing Agent, it will no longer be allowed to purchase PDRs or purchase Common Shares on behalf of the Selling Shareholders in the open market for the conduct of stabilization activities.

The information in this section has been derived from various government and private publications or obtained from communications with various Government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Underwriters or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

Constitution

The Constitution of the Philippines restricts the ownership and management of mass media to citizens of the Philippines or to corporations, cooperatives or associations wholly owned and managed by such citizens. The business of radio and television broadcast belongs to the domain of mass media.

Congress

Philippine law considers the ownership, management and operation of a broadcasting network as a public service.[1]

Congress granted the Company the franchise to construct, install, operate and maintain for commercial purposes and in the public interest, radio and television broadcasting stations in the Philippines on March 20, 1992 through Republic Act 7252. The Company's franchise requires it to obtain from the NTC appropriate permits and licenses for its stations. The term of the franchise is for 25 years. The franchise cannot be sold, leased or transferred without the prior consent of Congress. The franchise also reserves the right of the President, in times of rebellion, public peril, calamity, emergency, disaster or disturbance of peace and order, to temporarily take over and operate the stations, to temporarily suspend the operation of any station in the interest of public safety, security and public welfare, or to authorize the temporary use and operation thereof by any agency of the Government, upon due compensation, for the use of the said stations during the period when they are so operated.

RGMA was granted a franchise by Congress by virtue of Republic Act 8608, which was enacted on March 27, 1998. RGMA's franchise contains substantially the same provisions as the Company's franchise.

Public Service Act/NTC

Philippine law considers the ownership, management and operation of a broadcasting network as a public service, to be governed by the Public Service Act. The Public Service Act provides that no public service shall operate in the Philippines without possessing a valid and subsisting certificate of public convenience, to the effect that the operation of the service and its authorization to do business will promote the public interests in a proper and suitable manner.

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(1) Public Service Act, Section 13 (b) The term "public service" includes every person that now or hereafter may own, operate, manage, or control in the Philippines, for hire or compensation, with general or limited clientele, whether permanent, occasional or accidental, and done for general business purposes, wire or wireless communications system, wire or wireless broadcasting stations and other similar public services."

The NTC is the government agency vested with the authority to formulate and implement policies, plans, programs, rules and regulations in the establishment, maintenance, and operation of broadcast facilities, systems and services throughout the country. The NTC was created by Executive Order 546, creating a Ministry of Public Works and a Ministry of Transportation and Communications which merged the Board of Communications and the Telecommunications Control Bureau, and is now attached to the DOTC subject to the relevant provisions of the Administrative Code of 1987.

The NTC performs, among others, the following functions: (1) issues CPCs for the operation of communication utilities and services and regulates their uses in accordance to prescribed standards, specifications and regulations; (2) regulates operations of public service communications, and prescribes rates or charges related to such operations subject to rates established by international bodies or associations of which the Philippines is a member; (3) grants permits for the use of radio frequencies for wireless telephone and telegraph systems, including amateur radio stations and radio and television broadcasting systems; (4) coordinates with other government agencies involved with any activity involving communications in order to continuously improve communications services in the country; and (5) supervises and inspects the operations of radio stations and telecommunications facilities nationwide.

In a recent NTC memorandum Circular, the NTC reiterated its recognition of KBP, as the self-regulatory body for the broadcast media in the Philippines under the 1984 Instrument of Understanding, 1991 Memorandum of Agreement and the 1999 Memorandum of Understanding and continued adoption of the program standards in the KBP Radio and Television Codes which KBP has developed and institutionalized, which standards are imposed upon all radio and TV broadcast media and cable TV entities.

Securities and Exchange Commission ("SEC")

The Constitution of the Philippines provides that Congress shall not, except by general law, provide for the formation, organization, or regulation of private corporations. Private corporations are incorporated under the Corporation Code of the Philippines and acquire their juridical personality when the SEC issues a certificate of incorporation. As a private corporation, the Company is mandated by law to file its yearly General Information Sheet and Audited Financial Statements with the SEC.

MTRCB

The MTRCB has regulatory powers over the content of television broadcast programs subject to the limitations set by the Constitution and existing laws. In addition to the power to classify programs into categories such as "For General Patronage", "Parental Guidance", "R" or "X" (Not for public viewing), the MTRCB under the present law appears to be vested with the power to disapprove and delete portions of the television broadcast programs which it finds objectionable. The decision of the MTRCB on this matter is appealable once, to the Appeals Committee (Office of the President) who shall submit their recommendations to the President. The decision of the President on the matter is final, subject however to judicial review by the courts.

Any person who violates any provision of the law pertaining to the MTRCB or who violates the rules promulgated by the MTRCB shall be punished by imprisonment for three months and one day to one year and a fine of not less than ₱50,000.

R.A. 7252 declares that the Company shall be protected by the policy of self regulation as it provides that the Company shall not require any previous censorship of any speech, play, act or scene, or other matter to be broadcast and/or telecast from its stations; but if any such speech, play, act or other matter should constitute a violation of law or infringement of a private right, the Company shall be free from any liability civil or criminal, for such speech, play, act or scene, or other matter; provided that the Company, during any broadcast and/or telecast, shall cut off from the air the speech, play or scene, or other matter being broadcast and/or telecast if the tendency thereof is to propose and/or incite treason, rebellion or sedition, or the language used therein or the theme thereof is indecent or immoral.

Local Governments

The Company also complies with the relevant ordinances, resolutions and other measures of the local governments, which are in the nature of local legislations and issuances, in places where its businesses and /or operations are situated.

Optical Media Board ("OMB")

The OMB was formerly the Videogram Regulatory Board which was reorganized pursuant to R.A. 9239 (the "Act"). It is tasked with licensing functions with respect to businesses engaged in mastering, manufacture, replication, importation or exportation of optical media. Optical media is defined in the Act as a storage medium or device in which information, including sounds and/or images, or software code, has been stored, either by mastering and/or replication, which may be accessed and read using a lens scanning mechanism employing high intensity light source such as laser or any such other means as may be developed in the future.

GENERAL CORPORATE INFORMATION

Incorporation

The Company is duly organized as a corporation under the laws of the Philippines and was registered with the SEC on June 14, 1950.

Articles of Incorporation

The primary purpose for which the Company was formed is to engage in the business of radio and television broadcasting of all kinds and types on a commercial and/or sustaining basis; to establish, construct, maintain and operate for commercial purposes and in the public interest, television and radio broadcasting stations within or outside the Philippines, using microwave satellite or whatever means including the use of any new technologies in television and radio systems that may hereafter be developed; to act as an advertising agent and to carry on the business of advertising by radio and television broadcasting; to carry on a recording, film production and other information and entertainment business, to the extent allowed by law.

By-Laws

Shareholder Matters

The annual meeting of the Shareholders for the election of directors and for the transaction of such other business as may come before the meeting shall be held at such places within Metro Manila as may be fixed by the Board of Directors and on the third Wednesday of May of each year at 10:00 a.m. If the election of directors shall not be held on the day designated for any annual meeting or at any adjournment of such meeting, the Board of Directors shall cause the election to be held at a special meeting or soon thereafter as the same may be conveniently held.

A special meeting of the Shareholders may be called by the Chairman of the Board at his discretion or by a majority of the members of the Board of Directors or at the demand of the Shareholders holding the majority of the subscribed capital stock of the corporation.

The holders of a majority of the shares of the subscribed stock of the corporation outstanding, present in person or by proxy at any meeting of the Shareholders, shall constitute a quorum for the transaction of business.

Unless otherwise provided by law, each Shareholder shall at every meeting of the Shareholders be entitled to one vote, in person or by proxy, for each share with voting right held by such Shareholder. At all meetings of the Shareholders, all elections and all questions, except in cases where other provisions is made by statute, or by the Articles of Incorporation, shall be resolved by the plurality vote of Shareholders present in person or by proxy and entitled to vote thereat, a quorum being present.

Amendment of By-laws

The By-laws of the Company may be altered, amended, added to or replaced at any meeting of the Shareholders by the vote of the majority of the subscribed stock, and no notice of such proposed change in the By-laws shall be necessary prior to such meeting, and any such changes shall become operative immediately upon the same being made, provided, however, that the power to amend, alter or repeal the By-laws or adopt new By-laws may be delegated to the Board of Directors in the manner provided by law and any power delegated to the Board of Directors to amend or repeal any By-laws or adopt new By-laws shall be considered as revoked whenever a majority of the Shareholders of the corporation shall so vote at a regular or special meeting. This power was delegated to the Board of Directors in a resolution dated May 18, 1995.

Board of Directors Matters

A majority of the number of directors as set out in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

Fiscal Year

The Company's fiscal year begins on the first day of January and ends on the last day of December of each year.

Documents Available for Inspection

Copies of the following documents are available for inspection at the principal office of the Company, during normal business hours on any day on which such office is open for business:

1. the amended Articles of Incorporation and amended By-laws of the Company;

2. the Manual on Corporate Governance;

3. the Registration Statement and the appendices and exhibits thereto which have been filed by the Company with the SEC in relation to the Combined Offer.

THE PHILIPPINE STOCK MARKET

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from both bourses.

In June 1998, the SEC granted the PSE "Self-Regulatory Organization" status, allowing it to impose rules and implement penalties on erring trading participants and listed companies. On August 8, 2001, PSE completed its de-mutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of ₱36.8 million, of which ₱5.3 million is subscribed and fully paid-up. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member broker allowing the use of the PSE's trading facilities. As a result of the de-mutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed on either the PSE's First Board, Second Board or the Small and Medium Enterprises Board. The PSE has an index, referred to as the PHISIX, which as at the end of the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to the PSEi. The PSEi includes 35 selected stocks listed on the PSE.

The table below sets forth movements in the composite index from 1995 up to the first five months of 2007, and shows the number of listed companies, market capitalization, and value of securities traded for the same period:

	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization	Combined Value of Turnover
			(in ₱ billions)	
Year				
1995	2,594.2	205	1,545.7	379.0
1996	3,170.6	216	2,121.1	668.9
1997	1,869.2	221	1,251.3	588.0
1998	1,968.8	222	1,373.7	408.7
1999	2,142.9	226	1,937.7	713.9
2000	1,494.5	230	2,577.6	357.6
2001	1,168.1	232	2,142.6	159.5
2002	1,018.4	234	2,083.2	159.7
2003	1,442.4	236	2,973.8	145.4
2004	1,822.8	236	4,766.2	206.6
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	240	7,172.8	572.6
2007 (up to May 31, 2007)	3,474.7	313	8,010.7	500.0

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stock brokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed.

Minimum trading lots range from ten to 5 million shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50.0% or down by 40.0% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the company fails to submit such an explanation, a trading halt is imposed by the PSE on such company's shares the following trading day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated.

Scripless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.) was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Rizal Commercial Banking Corporation and Banco de Oro — EPCI, Inc.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation (''PCD Nominee''), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. ''Immobilization'' is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and a new warrant or stock certificate covering all the warrants or shares lodged (''Jumbo Certificate'') is issued in the name of PCD Nominee. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the Securities Clearing Corporation of the Philippines ("SCCP"), and into the PDTC system. Once it is determined on the settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement (''CCCS'') system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged by surrendering the Jumbo Certificate of PCD Nominee to a transfer agent which then issues a new stock certificate in the name of the shareholder and a new Jumbo Certificate of PCD Nominee for the balance of the lodged shares. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depositary and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are canceled and a new Jumbo Certificate is issued in the name of PCD Nominee Corp. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current ''de facto'' custodianship role.

Settlement

The SCCP is a wholly-owned subsidiary of the PSE and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (i) synchronizing the settlement of funds and the transfer of securities through delivery-versus-payment clearing and the settlement of transactions of Trading Participants, who are considered to be members of the SCCP; (ii) guaranteeing the settlement of trades, in the event of a Trading Participant's default, through the implementation of its "Fails Management System" and administration of the Clearing and Trade Guaranty Fund; and (iii) performing risk management and monitoring functions to ensure final and irrevocable settlement.

The SCCP settles PSE trades on a three-day rolling settlement basis, meaning that the settlement of trades takes place within three days after the date of the transaction. The deadline for settlement of trades is 12:00 p.m. of the third day after the transaction date. Securities sold should be in scripless form and lodged under the PDTC's book entry system. Each Trading Participant maintains a cash settlement account with one of the two SCCP settlement banks, Banco de Oro—EPCI, Inc. or Rizal Commercial Banking Corporation. Payment for securities should be final and irrevocable, using good, cleared funds. Presently, settlement occurs on a broker level.

The SCCP implemented its new Central Clearing and Central Settlement system ("CCCS") on May 29, 2006. The CCCS employs multilateral netting, whereby it automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. When novation of the original PSE trade contract occurs, the SCCP the central counterparty to each PSE-eligible trade cleared through it, ensuring delivery of shares and payments to all parties to the transaction.

Regulation and Reporting Requirements

Under the SRC, the Philippine SEC is responsible for regulating the securities market. The Philippines SEC is an administrative agency under the supervision of the Department of Finance of the Philippines.

The Philippines SEC is headed by a chairperson and four associate commissioners who are appointed by the President for staggered terms of seven years. The Philippine SEC is responsible for the registration of securities, regulation of securities exchanges and securities markets, the licensing of securities brokers and dealers and the promulgation of rules and regulations on securities trading.

The SRC provides that securities which are to be offered or sold to the public in the Philippines must be registered with the Philippine SEC (except for exempt securities and securities to be sold in certain exempt transactions). The SRC also requires public companies and companies whose securities are registered under the SRC to submit periodic corporate information and financial statements.

As part of the general reporting requirements, the Philippine SEC and the PSE require all listed companies to submit, among other things, a quarterly report within 45 days from the end of each of the first three quarters, an annual report within 105 days after the end of the fiscal year of the company and disclosure of material events affecting the company immediately after they occur.

PHILIPPINE FOREIGN INVESTMENT AND EXCHANGE CONTROLS AND FOREIGN OWNERSHIP

Registration of Foreign Investments and Exchange Controls

BSP regulations require registration of investments in Philippine securities (such as the PDRs) if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits, and earnings that accrue on such investments will be sourced from the banking system. If the foreign exchange required to service capital repatriation or dividend remittance will be sourced outside the banking system, registration is not required. Registration of Philippine securities listed on the PSE may be done with the BSP or through an investor's custodian bank which shall issue a registration document on behalf of the BSP. A custodian bank may be any commercial bank or offshore banking unit in the Philippines appointed by the investor to register the investment, hold securities for the investor, and represent the investor in all necessary actions in connection with the investment in the Philippines. Applications for registration must be accompanied by the following: (i) purchase invoice or subscription agreement and/or proof of listing on the PSE; (ii) credit advice or bank certificate showing the amount of foreign currency inwardly remitted and converted to pesos through a commercial bank; and (iii) in certain instances, transfer instructions from the Shareholder or dealer, as the case may be.

Upon registration of the foreign investment, proceeds of divestments, or dividends, of registered investments may be repatriated or remitted immediately and in full through the Philippine banking system, net of applicable taxes, without need of BSP approval. Remittance is allowed upon presentation to the authorized agent bank of the BSP of the BSP registration document, at the exchange rate applicable on the date of the actual remittance. Pending repatriation or reinvestment, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest thereon, net of taxes, may also be remitted in full. Divestment proceeds or dividends of registered investments may be reinvested in the Philippines.

The Monetary Board of the BSP may, with the approval of the President of the Philippines, temporarily suspend or restrict the sale of foreign exchange in the imminence of or during a foreign exchange crisis, or in times of national emergency. Furthermore, there can be no assurance that BSP foreign exchange regulations will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in the PDRs shall be the responsibility of the foreign investor.

Restriction on Foreign Ownership

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities, among them, the ownership of mass media entities.

As a Philippine corporation which has been granted a franchise by the Philippine Congress to own, operate and manage television and radio stations, the Company is subject to foreign ownership restrictions under the Constitution. Article XVI, Section 11(1) of the Philippine Constitution provides that ownership and management of mass media shall be limited to citizens of the Philippines or to corporations, cooperatives or associations wholly-owned and managed by Philippine citizens.

Accordingly, any transfer to a person who is not a Philippine citizen shall be deemed null and void and will neither be recognized nor registered in the books of the Company. The Company's Articles of Incorporation also provide that in the event the Company shall find that a holder of common shares is not qualified or has in any manner become disqualified to own shares in the Company, then the Company either by itself or through any qualified and willing person or entity designated by the Board of Directors, shall have the right to forthwith purchase the shares of stock of the disqualified shareholder at the prevailing market value of such shares. Upon payment or tender of payment to the disqualified shareholder, the secretary of the Company shall have full authority and shall be considered as the attorney in fact of the disqualified shareholder to transfer the said shareholder's shares in favor of the Company or in favor of such transferee as may be designated by the Board of Directors. The disqualified shareholder, upon demand, shall surrender to the Company for cancellation the corresponding stock certificates duly endorsed. Failure to surrender such stock certificates, however, shall constitute a bar to the transfer and registration of such transfer in the books of the Company.

TAXATION

Taxation

The following is a general description of certain Philippine tax aspects of the investment in the Company by Philippine persons. This discussion is based upon laws, regulations, rulings, income tax conventions (treaties), administrative practices and judicial decisions in effect at the date of this Prospectus. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective investor.

The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to an investor.

This general description does not purport to be a comprehensive description of the Philippine tax aspects of the investment in shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the shares in such other jurisdictions.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF LOCAL AND NATIONAL TAX LAWS.

Corporate Income Tax

A domestic corporation is subject to a tax of 35.0% (currently scheduled to be reduced to 30.0% beginning in 2009) of its taxable income (gross income less allowable deductions) from all sources within and outside the Philippines except, among others, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally subject to a final withholding tax of 20.0% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

A minimum corporate income tax of 2.0% of the gross income as at the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the minimum corporate income tax over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Further, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, or because of force majeure, or because of legitimate business reverses.

Tax on Dividends from Shares

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to income tax at the rate of 10.0%. Cash and property dividends received from a domestic corporation by another domestic corporation are not subject to income tax.

Dividends received by non-resident foreign individuals engaged in trade or business in the Philippines from Philippine corporations are subject to a 20% final withholding tax on gross amount thereof derived from Philippine sources, while dividends received by non-resident foreign individuals not engaged in trade or business in the Philippines are subject to a 25% final withholding tax on the gross amount thereof, subject to applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence of such foreign individuals.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to a final withholding tax at the rate of 35%, subject to applicable preferential rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The foregoing tax rates may be reduced to 15% if the country in which the non-resident foreign corporation is domiciled (i) imposes no taxes on foreign-sourced dividends or (ii) allows a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to 20%, which represents the difference between the regular income tax of 35% on corporations and the 15% tax on dividends.

Stock dividends distributed pro-rata to any holder of shares of stock are not subject to Philippine income tax.

Tax on Cash Distributions from PDRs

Under the Tax Code, the term "shares of stock" refers to shares of stock of a corporation, warrants and/or options to purchase shares of stock while the term "shareholder" refers to holders of a share of stock, warrant and or option to purchase shares of stock of a corporation. For Philippine tax purposes, the PDRs will be treated in the same manner as shares of stock and PDR holders will be treated in the same manner as shareholders.

The cash that Holders of the PDRs may receive in the event that cash dividends are distributed in respect of the Shares should therefore be taxable as dividends as discussed in the sub-section "Taxes on Dividends from Shares" above. However, should the BIR rule that such distributions to PDR Holders are taxable as interest rather than dividends, then the discussion under the subsection "Taxes on Interest" below, would apply.

Taxes on Interest

Interest income derived by individual citizens, individual resident aliens, Philippine corporations and resident foreign corporations from any bank deposit and yield or any other monetary benefit from deposit substitutes and from trust funds and similar arrangements from Philippine sources, shall be subject to a final withholding tax of 20%. Interest income derived from Philippine sources by individual non-resident aliens engaged in trade or business within the Philippines is subject to a final withholding tax of 20% of such interest income while interest income derived from Philippine sources by individual non-resident aliens not engaged in trade or business within the Philippines is subject to a final withholding tax of 25% of such interest income. The foregoing rates are subject to reduction under applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence of such foreign individuals. Interest income derived by non-resident foreign corporations from Philippine sources, other than foreign loans, is subject to a final withholding tax of 35% (currently scheduled to be reduced to 30% beginning in 2009). Interest income from foreign loans is subject to a withholding tax of 20% subject to applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence of such foreign corporations. Most tax treaties to which the Philippines is a party, including the Philippines-United States Tax Treaty (the "Treaty"), generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties, including the Treaty, provide that preferential tax rates will not apply if the recipient of the interest, which is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment to which such interest income is attributable.

Sale, Exchange or Disposition of Shares or PDRs

Capital Gains Tax

Net capital gains realized during each taxable year from the sale, exchange or disposition of shares of stock or PDRs outside the facilities of the PSE are subject to tax as follows: 5% on gains not exceeding ₱100,000 and 10% on gains over ₱100,000.

Taxes on Transfer of Shares or PDRs Listed and Traded at the Philippine Stock Exchange

A sale or other disposition of shares of stock or PDRs through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed. Said tax shall be paid by the seller or transferor. Gains on any such sale or other disposition are not subject to income tax.

In addition, a VAT of 12% is imposed on the commission earned by a PSE-registered broker, and is generally passed on to the client.

Tax on Exercise of PDRs

Under the terms and conditions of the PDR Instrument, the transfer and sale of Underlying Shares to a Holder of a PDR pursuant to the exercise of the holder of its right to delivery of the Underlying Shares, or the sale of Underlying Shares in the event that the exercising Holder is not qualified to hold the Shares, shall be made through the Philippine Stock Exchange. See "Terms and Conditions of PDRs." Thus, a stock transaction tax of 0.5% is due on such transfer or sale of the Underlying Shares. Under the terms and conditions of the PDR Instrument, the PDR Issuer shall pay for all stock transaction taxes, selling broker's commission and any transfer or similar fees due on the sale of the Underlying Shares, upon the exercise by a Holder of a PDR Exercise Right, but not to exceed the Exercise Price in respect of the PDRs being exercised. Any other taxes, fees or charges in excess of the amount payable by the Issuer on the exercise of a PDR shall be deducted from the net proceeds or shall otherwise be payable by or on behalf of the Holder.

Documentary Stamp Tax

The original issue of shares of stock, including the PDRs, is subject to documentary stamp tax of ₱1.00 for each ₱200.00 par value or a fraction thereof, of the shares of stock issued.

The transfer of shares of stock is generally subject to a documentary stamp tax of ₱0.75 for each ₱200.00 par value or a fractional part thereof of the share of stock transferred. However, for a period of five years from March 20, 2004, the sale, barter or exchange of shares of stock, including the PDRs, listed and traded at the PSE shall be exempt from documentary stamp tax.

In addition, the borrowing and lending of securities which will be executed under the securities borrowing and lending program to be implemented by a registered exchange, or which are in accordance with regulations prescribed by the appropriate regulatory authority, will likewise be exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

Estate and Gift Taxes

The transfer of shares of stock, including the PDRs upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien, regardless of residence, is subject to Philippine taxes at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax on such transfer of shares ranging from 2% to 15% of the net gifts during the year exceeding ₱100,000. The rate of tax with respect to net gifts made to a stranger (i.e., one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%.

Estate and donors' taxes, however, shall not be collected in respect of intangible personal property, such as shares of stock and PDRs: (a) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

LEGAL MATTERS

Certain Philippine legal matters in connection with the Combined Offer have been passed upon for the Company by the law firm of Belo Gozon Elma Parel Asuncion & Lucila, Manila, Philippines and for the Underwriters by the law firm of Romulo Mabanta Buenaventura Sayoc and De los Angeles, Manila, Philippines. Certain legal matters as to New York State and United States federal law have been passed upon for the International Underwriter by Allen & Overy, Hong Kong.

None of Romulo Mabanta Buenaventura Sayoc & De los Angeles or Allen & Overy, Hong Kong will receive any direct or indirect interest in the Company or in any securities thereof, including options, warrants or rights thereto, pursuant to, or in connection with the Combined Offer. Except for certain options that the partnership of Belo Gozon Elma Parel Asuncion & Lucila, its lawyers and staff may be entitled to receive under the ESOP adopted by the Company and Felipe L. Gozon, none of the partnership of Belo Gozon Elma Parel Asuncion & Lucila, its lawyers and staff will receive any direct or indirect interest in the Company or in any securities thereof, including options, warrants, or rights thereto, pursuant to, or in connection with the Combined Offer.

None of Romulo Mabanta Buenaventura Sayoc & De los Angeles or Allen & Overy, Hong Kong has acted or will act as promoter, underwriter, voting trustee, officer or employee of the Company. While Belo Gozon Elma Parel Asuncion & Lucila has not acted and will not act as promoter or underwriter of the Company, some of the lawyers of Belo Gozon Elma Parel Asuncion & Lucila have acted, currently act and will continue to act as officers or employees of the Company and of some of its subsidiaries. Such lawyers of Belo Gozon Elma Parel Asuncion & Lucila have acted, currently act and will continue to act as voting trustees, officers or employees of the Company either in their individual capacities or in connection with the engagement of Belo Gozon Elma Parel Asuncion & Lucila by the Company as its external counsel since 1993.

The Company and the law firm of Belo Gozon Elma Parel Asuncion & Lucila entered into a retainer agreement in 1993 under which Belo Gozon Elma Parel Asuncion & Lucila was engaged by the Company as its external counsel. As such external counsel, Belo Gozon Elma Parel Asuncion & Lucila handles all cases and legal matters referred to it by the Company. Other than Atty. Felipe L. Gozon, who has been one of the three major Shareholders of the Company through his companies and director of the Company since 1976, some of the lawyers of Belo Gozon Elma Parel Asuncion & Lucila eventually assumed certain positions and functions in the Company either in their individual capacities or as part of the functions of Belo Gozon Elma Parel Asuncion & Lucila as the Company's external counsel.

INDEPENDENT PUBLIC ACCOUNTANTS

The financial statements of the Company as at and for the years ended December 31, 2004, 2005 and 2006, and the Financial Statements of GHI as at December 31, 2006 and the period from February 15, 2006 to December 31, 2006, including the notes thereto which are incorporated by reference included in this Prospectus, have been audited without qualification by SyCip Gorres Velayo & Co.. The unaudited financial statements of the Company as of and for the three-month periods ended March 31, 2007 and 2006, and the unaudited financial statements of GHI as of March 31, 2007 and 2006 and the three-month period ended March 31, 2007 and the period February 15, 2006 to March 31, 2006 have been reviewed by Sycip, Gorres, Velayo & Co., as stated in their review reports appearing herein.

SyCip Gorres Velayo & Co. has acted as the Company's external auditors since 1994.

The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period.

SyCip Gorres Velayo & Co. has no shareholdings in the Company or in the PDR Issuer, nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SyCip Gorres Velayo & Co. will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Combined Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by SyCip Gorres Velayo & Co., excluding fees directly related to the Primary Share Offer and the PDR Offer.

	2005	2006
	(in ₱ Millions)	
Audit fees	3.74	4.30
Tax fees[1]	0.10	0.15
All other fees[2]	1.90	1.55
Total	**5.74**	**6.00**

(1) Fees paid in connection with services for general tax compliance.

(2) Fees relating to the conversion to IFRS and the preparation of a long-form report.

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
GMA Network, Inc.

We have audited the accompanying financial statements of GMA Network, Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2006, 2005 and 2004, and the consolidated statements of income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of GMA Network, Inc. and subsidiaries as of December 31, 2006, 2005 and 2004, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0267366, January 2, 2007, Makati City

March 15, 2007

GMA NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31		
	2006	2005	2004
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 5 and 32)	**₱306,600,439**	₱490,604,935	₱433,569,467
Short-term investments (Note 32)	**226,352,970**	—	7,072,961
Trade and other receivables - net (Notes 6 and 32)	**3,830,713,778**	3,105,734,708	3,248,444,863
Program rights - net (Note 7)	**1,031,059,973**	1,001,074,490	564,768,891
Prepaid expenses and other current assets (Notes 8 and 32)	**250,879,213**	241,597,171	144,219,099
Total Current Assets	**5,645,606,373**	4,839,011,304	4,398,075,281
Noncurrent Assets			
Available-for-sale financial assets (Notes 9 and 32)	**97,346,586**	110,415,259	—
Investments and advances (Note 10)	**364,045,151**	414,745,018	537,367,441
Property and equipment at cost - net (Note 11)	**2,522,169,579**	2,436,505,013	1,983,078,136
Land at revalued amounts (Note 12)	**1,371,884,364**	1,364,804,064	1,351,995,174
Investment properties - net (Note 13)	**43,363,765**	68,159,432	54,965,448
Deferred tax assets - net (Note 29)	**21,878,040**	18,482,269	13,747,240
Other noncurrent assets - net (Notes 14 and 32)	**167,736,206**	136,698,364	178,710,951
Total Noncurrent Assets	**4,588,423,691**	4,549,809,419	4,119,864,390
	₱10,234,030,064	₱9,388,820,723	₱8,517,939,671
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Notes payable (Notes 15 and 32)	**₱577,100,000**	₱276,600,000	₱387,008,646
Trade payables and other current liabilities (Notes 16 and 32)	**1,506,383,284**	1,641,600,856	1,366,881,853
Income tax payable	**569,165,289**	509,336,826	417,767,573
Current portion of obligations for program rights (Notes 17 and 32)	**172,758,147**	319,056,409	152,560,797
Current portion of long-term debt (Note 18)	**—**	—	524,590,007
Total Current Liabilities	**2,825,406,720**	2,746,594,091	2,848,808,876
Noncurrent Liabilities			
Obligations for program rights - net of current portion (Notes 17 and 32)	**—**	17,958,476	22,244,670
Pension liability (Note 26)	**286,473,230**	238,955,300	209,893,197
Deferred tax liabilities - net (Note 29)	**198,925,665**	230,033,995	298,021,988
Total Noncurrent Liabilities	**485,398,895**	486,947,771	530,159,855

	December 31		
	2006	2005	2004
Stockholders' Equity			
Capital stock (Note 19)	**4,250,000,000**	1,250,000,000	1,062,645,472
Revaluation increment in land - net (Note 12)	**733,610,450**	733,610,450	712,650,151
Unrealized loss on available-for-sale financial assets (Note 9)	**(546,035)**	—	—
Retained earnings (Notes 10, 19 and 20)	**1,940,160,034**	4,171,668,411	3,363,675,317
Total Stockholders' Equity	**6,923,224,449**	6,155,278,861	5,138,970,940
	₱10,234,030,064	₱9,388,820,723	₱8,517,939,671

See accompanying Notes to Consolidated Financial Statements.

GMA NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005	2004
REVENUE (Note 22)	**₱11,027,097,170**	₱9,826,933,167	₱7,996,646,674
LESS REVENUE DEDUCTIONS			
Agency and marketing commissions	**1,685,747,826**	1,581,875,091	1,330,678,648
Co-producers' share	**153,483,007**	156,445,280	177,180,310
	1,839,230,833	1,738,320,371	1,507,858,958
NET REVENUE	**9,187,866,337**	8,088,612,796	6,488,787,716
PRODUCTION COSTS (Note 23)	**3,702,822,047**	2,873,671,299	2,333,850,429
GROSS PROFIT	**5,485,044,290**	5,214,941,497	4,154,937,287
GENERAL AND ADMINISTRATIVE EXPENSES (Note 24)	**(2,612,972,057)**	(2,308,908,921)	(1,856,481,812)
INTEREST EXPENSE AND FINANCING CHARGES ON SHORT-TERM AND LONG-TERM LOANS (Notes 15 and 18)	**(38,029,562)**	(43,623,936)	(122,445,612)
INTEREST INCOME FROM SHORT-TERM INVESTMENTS	**12,697,551**	22,301,854	17,561,910
EQUITY IN NET LOSSES OF ASSOCIATES AND JOINT VENTURES (Note 10)	**(10,395,732)**	(7,894,998)	(8,829,736)
OTHER INCOME - Net (Notes 27 and 32)	**177,997,127**	68,910,867	23,871,879
INCOME BEFORE INCOME TAX	**3,014,341,617**	2,945,726,363	2,208,613,916
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**1,086,052,406**	991,315,755	734,937,652
Deferred	**(34,210,082)**	(50,839,768)	(26,920,466)
	1,051,842,324	940,475,987	708,017,186
NET INCOME	**₱1,962,499,293**	₱2,005,250,376	₱1,500,596,730
Basic Earnings Per Share (Note 30)	**₱0.491**	₱0.729	₱0.546
Diluted Earnings Per Share (Note 30)	**₱0.491**	₱—	₱—

See accompanying Notes to Consolidated Financial Statements.

GMA NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Capital Stock (Note 19)	Revaluation Increment in Land - Net (Notes 12 and 29)	Unrealized Loss on Available-for-sale Financial Assets (Note 9)	Retained Earnings (Notes 10, 19 and 20)	Total Stockholders' Equity
At January 1, 2006	**₱1,250,000,000**	**₱733,610,450**	**₱—**	**₱4,171,668,411**	**₱6,155,278,861**
Loss for the year recognized directly in equity	**—**	**—**	**(546,035)**	**—**	**(546,035)**
Net income	**—**	**—**	**—**	**1,962,499,293**	**1,962,499,293**
Total income and expense for the year	**—**	**—**	**(546,035)**	**1,962,499,293**	**1,961,953,258**
Stock dividends	**3,000,000,000**	**—**	**—**	**(3,000,000,000)**	**—**
Cash dividends	**—**	**—**	**—**	**(1,089,540,602)**	**(1,089,540,602)**
Property dividends	**—**	**—**	**—**	**(104,467,068)**	**(104,467,068)**
At December 31, 2006	**₱4,250,000,000**	**₱733,610,450**	**(₱546,035)**	**₱1,940,160,034**	**₱6,923,224,449**
At January 1, 2005, as restated	₱1,062,645,472	₱712,650,151	₱—	₱3,363,675,317	₱5,138,970,940
Effect of change in accounting for financial instruments (Note 3)	—	—	—	(9,691,346)	(9,691,346)
At January 1, 2005, as adjusted	1,062,645,472	712,650,151	—	3,353,983,971	5,129,279,594
Net income	—	—	—	2,005,250,376	2,005,250,376
Addition to revaluation increment due to increase in tax rate	—	20,960,299	—	—	20,960,299
Total income and expense for the year	—	20,960,299	—	2,005,250,376	2,026,210,675
Collection of subscriptions receivable	187,354,528	—	—	—	187,354,528
Cash dividends	—	—	—	(1,187,565,936)	(1,187,565,936)
At December 31, 2005	₱1,250,000,000	₱733,610,450	₱—	₱4,171,668,411	₱6,155,278,861
At January 1, 2004	₱1,062,500,000	₱623,265,357	₱—	₱2,149,078,587	₱3,834,843,944
Net income	—	—	—	1,500,596,730	1,500,596,730
Addition to revaluation increment (net of tax effect)	—	89,384,794	—	—	89,384,794
Total income and expense for the year	—	89,384,794	—	1,500,596,730	1,589,981,524
Collection of subscriptions receivable	145,472	—	—	—	145,472
Cash dividends	—	—	—	(286,000,000)	(286,000,000)
At December 31, 2004	₱1,062,645,472	₱712,650,151	₱—	₱3,363,675,317	₱5,138,970,940

See accompanying Notes to Consolidated Financial Statements.

GMA NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,014,341,617**	₱2,945,726,363	₱2,208,613,916
Adjustments for:			
Program rights usage (Notes 7 and 23)	**581,546,752**	299,072,199	211,304,619
Depreciation and amortization (Note 24)	**412,403,819**	400,783,621	420,125,956
Reversal of long-outstanding liabilities and accruals (Note 27)	**(44,575,703)**	—	—
Interest expense and financing charges on short-term and long-term loans (Notes 15 and 18)	**38,029,562**	43,623,936	122,445,612
Other noncash expenses - net	**13,898,254**	—	—
Interest income from short-term investments	**(12,697,551)**	(22,301,854)	(17,561,910)
Equity in net losses of associates and joint ventures (Note 10)	**10,395,732**	7,894,998	8,829,736
Amortization of software costs (Notes 14 and 24)	**9,724,154**	11,007,746	13,131,279
Marked-to-market gains on derivatives and financial assets through profit or loss (Note 27)	**(6,844,877)**	(5,482,847)	—
Dividend income (Note 27)	**(5,038,580)**	(2,537,650)	(3,015,109)
Unrealized foreign exchange loss (gain)	**(4,701,248)**	(8,365,126)	566,658
Loss (gain) on sale of property and equipment (Note 27)	**465,236**	(929,910)	(1,899,911)
Impairment loss on investment properties (Note 13)	**—**	5,410,892	—
Operating income before working capital changes	**4,006,947,167**	3,673,902,368	2,962,540,846
Net pension expense (Note 25)	**73,834,854**	56,535,539	46,934,106
Sick and vacation leaves expense (Note 25)	**42,650,259**	39,789,064	20,720,450
Provision for doubtful accounts (Note 24)	**4,168,622**	31,162,605	14,740,054
Impairment (reversal of allowance for impairment) of program rights carried at perpetuity (Note 7)	**1,794,047**	(1,428,056)	(459,681)
Decrease (increase) in:			
Trade and other receivables	**(728,331,369)**	116,070,099	(958,902,068)
Program rights (Note 23)	**(613,326,282)**	(733,151,314)	(342,598,319)
Prepaid expenses and other current assets	**(6,521,440)**	(88,642,742)	17,291,086
Increase (decrease) in:			
Trade payables and other current liabilities	**(141,627,168)**	389,206,021	356,736,871
Pension liability	**(26,316,924)**	(28,811,129)	(32,634,662)
Obligations for program rights	**(164,256,738)**	168,150,865	38,129,812
Write-off of trade and other receivables	**—**	(3,798,965)	(1,494,626)
Cash generated from operations	**2,449,015,028**	3,618,984,355	2,121,003,869
Income taxes paid	**(1,026,223,943)**	(899,746,502)	(630,693,521)
Net cash provided by operating activities	**1,422,791,085**	2,719,237,853	1,490,310,348

		Years Ended December 31	
	2006	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 11)	**(₱514,768,749)**	(₱857,112,311)	₱467,262,505)
Decrease (increase) in:			
Short-term investments	**(226,352,970)**	7,072,961	(7,072,961)
Other noncurrent assets - net	**(38,237,617)**	51,401,975	30,704,351
Investments and advances	**(23,032,231)**	(19,273,433)	(8,398,430)
Investment properties	**9,036,266**	(23,224,280)	—
Interest received	**13,154,358**	20,078,270	13,006,277
Additions to land at revalued amounts (Note 12)	**(7,080,300)**	(12,808,890)	(10,597,750)
Cash dividends received	**5,038,580**	2,537,650	3,015,109
Proceeds from sale of property and equipment	**2,041,863**	2,330,055	6,070,172
Net cash used in investing activities	**(780,200,800)**	(828,998,003)	(440,535,737)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Cash dividends	**(1,089,540,602)**	(1,159,586,782)	(234,388,524)
Notes payable	**(535,900,000)**	(620,408,646)	(408,438,295)
Long-term debt	**—**	(524,590,007)	(525,121,214)
Proceeds from availments of notes payable	**836,400,000**	510,000,000	529,200,000
Interest and financing charges paid	**(42,255,427)**	(39,063,333)	(126,341,676)
Collection of subscriptions receivable	**—**	—	145,472
Net cash used in financing activities	**(831,296,029)**	(1,833,648,768)	(764,944,237)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**4,701,248**	444,386	287,226
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(184,004,496)**	57,035,468	285,117,600
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**490,604,935**	433,569,467	148,451,867
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱306,600,439**	₱490,604,935	₱433,569,467

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

GMA Network, Inc. (the Parent Company) and subsidiaries (collectively referred to as "the Group") are incorporated in the Philippines. The Group is primarily involved in the business of radio and television broadcasting. The Group is also involved in film production and other information and entertainment-related businesses. The registered office address of the Parent Company is GMA Network Center, Timog Avenue corner EDSA, Quezon City.

GMA Network, Inc. is the ultimate parent company of the Group.

The accompanying consolidated financial statements of the Group as of and for the years ended December 31, 2006, 2005 and 2004 were authorized for issue by the Board of Directors (BOD) on March 15, 2007.

2. Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for derivative financial instruments, available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL) which have been measured at fair value and land used in operations which is carried at revalued amounts. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and reporting currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Financial Reporting Standards Council.

Changes in Accounting Policies
The Group adopted the following amendments to the PAS and Philippine interpretation from International Financial Reporting Interpretation Committee (IFRIC) effective January 1, 2006:

- PAS 19, *Amendment to Employee Benefits: Actuarial Gains and Losses, Group Plans and* Disclosures, requires additional disclosures about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit costs. The adoption did not have a recognition or measurement impact as the Group chose not to apply the option to recognize actuarial gains and losses outside of the consolidated statements of income;

- PAS 21, *Amendment to the Effects of Changes in Foreign Exchange Rates*, states that all exchange differences arising from a nonmonetary item that forms part of the group's net investment in foreign operations are recognized in a separate component of stockholders' equity in the financial statements regardless of the currency in which the monetary item is denominated. The Group does not have investment in foreign operations;

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Financial Guarantee Contracts*, requires the initial recognition of financial guarantee contracts at fair value and generally re-measured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue Recognition*. The amendment did not have an effect on the consolidated financial statements;

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for Cash Flow Hedges of Forecast Intragroup Transactions,* permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into the transaction and that the foreign currency risk will affect the consolidated statements of income. As the Group has no such transactions, the amendment did not have an effect on the consolidated financial statements;

- PAS 39, *Financial Instruments: Recognition and Measurement - Amendment for the Fair Value Option,* restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated statements of income. The Group complied with the conditions of the amendment. The amendment did not have a significant impact on the consolidated financial statements; and

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The adoption of Philippine Interpretation IFRIC 4 did not have a significant impact on the Group's consolidated financial statements.

Future Changes in Accounting Policies

- PFRS 7, *Financial Instruments: Disclosures,* introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The Group will adopt PFRS 7 beginning January 1, 2007. The Group is currently assessing the impact of PFRS 7 and expects that the main additional disclosures will be the sensitivity analysis to market risk required by PFRS 7.

- PAS 1, *Amendment to Presentation of Financial Statements,* requires the Group to make additional disclosures to enable the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The additional disclosures provided by the standard will be included in the consolidated financial statements when the amendment to the accounting standard is adopted in 2007.

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, becomes effective for financial years beginning on or after March 1, 2006. This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The Group will adopt IFRIC 7 beginning January 1, 2007 but it expects that the interpretation will have no impact on the consolidated financial statements.

- PFRS 8, *Operating Segments,* will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences. The Group will assess the impact of this standard to its current manner of reporting segment information when it adopts the standard on January 1, 2009.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2,* becomes effective for financial years beginning on or after May 1, 2006. This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group will adopt Philippine Interpretation IFRIC 8 starting January 1, 2007. The Group does not expect the interpretation to have significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Group will adopt Philippine Interpretation IFRIC 9 starting January 1, 2007. The Group expects that the adoption of this interpretation will have no significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment,* becomes effective for financial years beginning on or after November 1, 2006. It provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Group will adopt Philippine Interpretation IFRIC 10 starting January 1, 2007. This interpretation is not expected to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions,* will be effective on March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group does not expect this interpretation to have a significant impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement,* will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public- to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the Group's consolidated financial statements as this is not relevant to its current operations.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership		
		2006	2005	2004
Entertainment Business:				
Citynet Network Marketing and Productions, Inc.*	Philippines	**100**	100	100
GMA Network Films, Inc.	- do -	**100**	100	100
GMA New Media, Inc. (GNMI)	- do -	**100**	100	100
GMA Worldwide (Philippines), Inc.	- do -	**100**	100	100
RGMA Network Marketing & Productions, Inc.****	- do -	**100**	100	—
Scenarios, Inc.	- do -	**100**	100	100
Advertising Business:				
Alta Productions Group, Inc. (Alta)	- do -	**100**	100	100
GMA Marketing & Productions, Inc. (GMPI)	- do -	**100**	100	100
Others:				
MediaMerge Corporation **	- do -	**100**	100	100
Ninja Graphics, Inc. (Ninja) ***	- do -	**51**	51	51

* *Ceased commercial operations in 2001*

** *Indirectly owned through GNMI; formerly Digital Kitchen, Inc.; has not yet started commercial operations as of December 31, 2006*

*** *Indirectly owned through Alta; ceased commercial operations in 2001*

**** *Started operations in 2004*

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company. Intercompany balances and transactions, including intercompany and unrealized profits and losses, are eliminated in full.

Minority interest in Ninja as of 2006, 2005 and 2004 has been reduced to zero because Ninja is in a net capital deficiency position in those years.

3. Summary of Significant Accounting and Financial Reporting Policies

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments include highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but not more than one year from dates of acquisition and are subject to an insignificant risk of change in value.

Program Rights

Program rights with finite lives are stated at amortized cost less any impairment in value. The cost is: (1) charged directly to income on the first airing of the program if program cost is below a certain amount set by management; or (2) amortized to the extent of 70% on the first airing and 30% on the second airing if program cost exceeds the amount set by management (70-30 amortization rule).

For series, the cost is charged to income as aired on a per episode basis.

For rights intended for airing over the international channels, the cost is amortized on straight-line basis over the number of years indicated in the contract.

For rights carried at perpetuity, the 70-30 amortization rule shall apply on the amount, net of any residual value.

Materials and Supplies Inventory

Materials and supplies inventory (included under "Prepaid expenses and other current assets" account in the consolidated balance sheets) is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL financial assets and loans and receivables. Financial liabilities are further classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

<u>Financial Assets</u>
Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statements of income.

Financial assets may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or

- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Classified as financial assets at FVPL are the Parent Company's bifurcated embedded derivatives (see Note 32). In 2005, certain investments in quoted equity securities were classified as financial assets at FVPL (see Note 14).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Group's short-term investments, trade and other receivables and guarantee and other deposits (see Notes 6 and 14).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Group has no investments classified as HTM as of December 31, 2006, 2005 and 2004.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in stockholders' equity is transferred to the consolidated statements of income. Interest earned on holding AFS financial assets are recognized in the consolidated statements of income using the effective interest rate. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Group has investments in various quoted and unquoted shares of stocks classified under this category (see Note 9).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivatives transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group has no financial liabilities classified under this category as of December 31, 2006, 2005 and 2004.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes notes payable, trade payables and other current liabilities, obligations for program rights and long-term debt (see Notes 15, 16, 17 and 18).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Derecognition of Financial Assets and Liabilities
Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from stockholders' equity to the consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. No impairment losses were recognized during the year.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

Impact of PAS 32 and PAS 30 Upon Initial Adoption
In 2005, as allowed by the Securities and Exchange Commission (SEC), the adoption of PAS 32 and PAS 39 did not result in the restatement of prior year financial statements. The cumulative effect of adopting these accounting standards was charged to the January 1, 2005 retained earnings.

The adoption of PAS 39 increased (decreased) the following accounts as of January 1, 2005:

	Notes	Amount
Trade and other receivables - net	a	(₱1,500,000)
Financial assets at fair value through profit or loss	b	(4,680,816)
Available-for-sale financial assets	c	(1,586,842)
Obligations for program rights	d	(2,012,714)
Program rights	d	(3,193,573)
Derivative liability	e	1,876,382
Deferred tax assets	f	1,388,149
Deferred tax liabilities	f	255,497
Retained earnings	a, b, c, d, e	(9,691,346)

a - Recognized additional impairment loss based on PAS 39 impairment policies.

b - Recognized change in fair value of investments in quoted equity securities designated as at fair value through profit or loss.

c - Recognized impairment loss on investments in unquoted equity securities classified as available-for-sale.

d - Adjustments resulted from PAS 39 requirement to initially record a financial liability at fair value. As obligation for program rights is non-interest bearing, adjustment is made to recognize the liability at present value at inception. The discounted value is then accreted using the effective interest method (see Note 17).

e - Recognized derivatives embedded in certain of the Parent Company's lease and purchase contracts at fair value (see Note 32).

f - Recognized deferred tax effects of the above adjustments.

Accounting Policies Prior to January 1, 2005

- Investments in shares of stock are carried at the lower of aggregate cost or fair market value.

- An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

- Obligations for program rights are recognized and carried at face amount.

- Embedded derivatives are not given accounting recognition.

Investments in Associates
The Group's investments in associates are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. The investments in associates are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the associates, less any impairment in value. The consolidated

statements of income include the Group's share in the results of operations of the associates. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associates, against the investments in the associates. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Advances to Associates

Advances to associates are stated at face value less allowance for any uncollectible accounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Interests in Joint Ventures

The Group's interests in joint ventures are accounted for using the equity method, similar to investments in associates described above.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties and borrowing costs and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes any asset retirement obligation. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Equipment for installation is stated at cost. Equipment for installation is not depreciated until such time that the relevant asset is ready for use.

Depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings, towers and improvements	20 years
Antenna and transmitter systems and broadcast equipment	5-10 years
Communication and mechanical equipment	3-5 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years

The remaining useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts; any resulting gain or loss is credited or charged to current operations.

Land
Following initial recognition at cost, land used in operations is carried at revalued amount, which is the fair value at the date of the revaluation, less any subsequent accumulated impairment losses. Fair value was determined by an independent firm of appraisers on May 18, 2004 and October 18, 2004. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

The revaluation increment resulting from the revaluation, net of deferred tax liability, is credited to the "Revaluation increment in land" account included in the stockholders' equity section of the consolidated balance sheets.

Upon disposal, the revaluation increment relating to the asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the year the asset is derecognized.

Investment Properties
Investment properties consist of real estate held for capital appreciation. Investment properties, except land, are measured at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value.

Depreciation is computed using the straight-line method over 20 years.

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

Transfers are made to investment property when, and only when, there is a change in use, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the Group's occupation or commencement of development with a view to sale.

Investment in Artworks
Investment in artworks (included under "Other noncurrent assets" account in the consolidated balance sheets) is stated at cost less any impairment in value.

Software Costs
Costs incurred in the acquisition and customization of new software (included under "Other noncurrent assets" account in the consolidated balance sheets) are capitalized and amortized on a straight-line basis over three years.

Impairment of Nonfinancial Assets
The carrying values of property and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property and equipment is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of

money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured.

Airtime revenue is recognized on the date the advertisement is aired.

Goods received in exchange for airtime usage pursuant to ex-deal contracts executed between the Group and its customers are recorded at fair market values of assets received. Fair market value is the current market price.

Tax credits on aggregate airtime credits from government sales availed of under Presidential Decree No. 1362 are recognized as income when there is reasonable certainty that these can be used to pay duties and taxes on imported capital equipment.

Subscription income is recognized on an accrual basis in accordance with the terms of subscription agreements.

Commission is recognized as income on an accrual basis in accordance with the terms of the related marketing agreements.

Rental income from property and equipment is accounted for on a straight-line basis over the lease term.

Dividend income is recognized when the Group's right to receive the payment is established.

Interest income is recognized as the interest accrues, taking into account the effective yield of the asset.

Research Costs

Research costs are expensed as incurred.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Costs

The Parent Company and some of its subsidiaries have funded, noncontributory retirement plans covering their permanent employees. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plans at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, pension plans, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plans.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plans, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term.

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at balance sheet date. All differences are taken to the consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Taxes

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to the items recognized directly in equity is recognized in equity and not in the consolidated statements of income.

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

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheets.

<u>Earnings Per Share (EPS)</u>
Basic EPS is computed by dividing the net income, net of income attributable to preferred shares, by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Diluted EPS is calculated by dividing the net income (inclusive of income attributable to preferred shares) by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued upon conversion of all dilutive potential common shares.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events After Balance Sheet Date
Post-year end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

Segment Reporting
The Group considers television operations as the major business segment. This accounts for about 95% of the Group's gross revenue, net income, assets and liabilities. Other operations account for less than 5% of the Group's gross revenue, net income, asset and liabilities.

4. Significant Accounting Judgments and Estimates

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Operating Leases. The Group has entered into various lease agreements as a lessee. The lease agreements are accounted for as operating leases with the lessor retaining all significant risk and rewards of ownership of these properties.

Rent expense charged to operations amounted to ₱582.31 million, ₱495.25 million and ₱349.50 million in 2006, 2005 and 2004, respectively (see Notes 23 and 24).

Functional Currency. The Group has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Group operates.

Estimates
The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's financial statements. Actual results could differ from such estimates.

Estimating Allowances for Doubtful Accounts. Provisions are made for specific and groups of accounts where objective evidence of impairment exists. The Group evaluates these accounts, based on the available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers and the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱3,830.71 million, ₱3,105.73 million and ₱3,248.44 million as of December 31, 2006, 2005 and 2004, respectively (see Note 6).

Estimating Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets amounted to ₱185.36 million, ₱155.66 million and ₱103.66 million as of December 31, 2006, 2005 and 2004, respectively (see Note 29).

Amortization of Program Rights. The Group estimates the amortization method of program rights with finite lives based on the manner and pattern of usage of the acquired program rights. The Group estimates that programs are more marketable in their initial airing as compared to the succeeding airings. In addition, estimation of the amortization method of program rights is based on industry practice and experience with such rights. The Group also estimates residual values on program rights carried at perpetuity at an amount set by management which is a certain percentage of the acquisition cost. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Program rights, net of accumulated impairment loss, amounted to ₱1,031.06 million, ₱1,001.07 million and ₱564.77 million as of December 31, 2006, 2005 and 2004, respectively (see Note 7).

Estimating Useful Lives of Property and Equipment and Investment Properties. The Group estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment properties would increase recorded operating expenses and decrease noncurrent assets.

Property and equipment, net of accumulated depreciation, amortization and impairment loss amounted to ₱2,522.17 million, ₱2,436.51 million and ₱1,983.08 million as of December 31, 2006, 2005 and 2004, respectively (see Note 11). Investment properties, net of accumulated depreciation, amounted to ₱43.36 million, ₱68.16 million and ₱54.96 million as of December 31, 2006, 2005 and 2004, respectively (see Note 13).

Asset Retirement Obligation. Determining asset retirement obligation requires estimation of the cost of dismantling, installation and restoring leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of December 31, 2006, 2005 and 2004.

Revaluation of Land. The Group engages Cuervo Appraisers, Inc., an accredited independent appraiser, to determine the fair value of the land used in operations. Fair value is determined by reference to market-based evidence.

Revalued amount of land amounted to ₱1,371.88 million, ₱1,364.80 million and ₱1,352.00 million as of December 31, 2006, 2005 and 2004, respectively (see Note 12).

Impairment of AFS Financial Assets. The Group treats AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Group treats ‘significant’ generally as 20% more of the original cost of investment, and ‘prolonged’ as greater than 6 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The Group’s AFS financial assets amounted to ₱97.35 million and ₱110.41 million as of December 31, 2006 and 2005, respectively.

Impairment of Nonfinancial Assets. For property and equipment and other long-lived assets, impairment testing is performed whenever there is an indication that the assets are impaired. Determining the net recoverable value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations.

The aggregate amount of program rights, investments and advances, property and equipment, land and investment properties amounted to ₱5,332.52 million, ₱5,285.29 million and ₱4,492.18 million as of December 31, 2006, 2005 and 2004, respectively (see Notes 7, 10, 11, 12 and 13).

Pension and Other Retirement Benefits. The determination of the Group’s obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 and include, among others, discount rates, expected rates of return on plan assets and expected rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

Net pension liability amounted to ₱286.47 million, ₱238.96 million and ₱209.89 million as of December 31, 2006, 2005 and 2004, respectively (see Note 26).

Financial Assets and Liabilities. The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities are enumerated in Note 32.

Contingencies. The Group currently has various legal claims. The Group’s estimates of the probable costs for the resolution of these claims have been developed in consultation with in- house, as well as outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group currently does not believe these legal claims will have a material adverse effect on its consolidated financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings (see Note 33).

5. Cash and Cash Equivalents

This account consists of:

	2006	2005	2004
Cash on hand and in banks	**₱212,014,487**	₱462,541,063	₱277,564,248
Short-term placements	**94,585,952**	28,063,872	156,005,219
	₱306,600,439	₱490,604,935	₱433,569,467

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term placement rates.

6. Trade and Other Receivables

This account consists of:

	2006	2005	2004
Trade (see Note 21)	**₱3,802,715,622**	₱3,096,580,146	₱3,185,975,794
Others	**84,107,779**	61,295,562	87,246,429
	3,886,823,401	3,157,875,708	3,273,222,223
Less allowance for doubtful accounts	**56,109,623**	52,141,000	24,777,360
	₱3,830,713,778	₱3,105,734,708	₱3,248,444,863

Trade receivables are noninterest-bearing and are generally on a 60-day credit term.

7. Program Rights

The movements in program rights are as follows:

	December 31, 2006	December 31, 2005	December 31, 2004
Cost			
Balance at beginning of year	**₱1,002,143,008**	₱567,265,465	₱435,971,765
Additions	**613,326,282**	733,949,742	342,598,319
Program usage (see Note 23)	**(581,546,752)**	(299,072,199)	(211,304,619)
Balance at end of year	**1,033,922,538**	1,002,143,008	567,265,465
Accumulated Impairment Loss			
Balance at beginning of year	**1,068,518**	2,496,574	2,956,255
Additions	**1,794,047**	—	—
Reversals	**—**	(1,428,056)	(459,681)
Balance at end of year	**2,862,565**	1,068,518	2,496,574
Net Book Value	**₱1,031,059,973**	₱1,001,074,490	₱564,768,891

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2006	2005	2004
Prepaid production costs	**₱101,727,830**	₱110,351,426	₱76,170,554
Prepaid expenses	**42,935,246**	34,139,400	14,763,837
Materials and supplies inventory at cost	**71,438,801**	35,419,793	26,852,161
Derivative assets (see Note 32)	**3,759,775**	2,614,258	—
Others	**31,017,561**	59,072,294	26,432,547
	₱250,879,213	₱241,597,171	₱144,219,099

9. Available-for-Sale Financial Assets

This account consists of investments in quoted and unquoted shares of stock (see Notes 10 and 32).

AFS investments include unrealized loss amounting to ₱0.84 million in 2006. This amount, net of deferred tax assets amounting to ₱0.29 million, is deferred under the stockholders' equity section of the 2006 consolidated balance sheet.

10. Investments and Advances

This account consists of:

	2006	2005	2004
Investments in shares of stocks accounted under the equity method	**₱42,692,097**	(₱34,212,368)	(₱26,317,370)
Advances to associates and joint ventures	**96,019,370**	101,593,021	100,037,321
Advances to related parties (see Note 21)	**225,333,684**	347,364,365	337,314,418
Other investments in shares of stock - at cost	**—**	—	126,333,072
	₱364,045,151	₱414,745,018	₱537,367,441

The movements in the above amounts follow:

	2006	2005	2004
Investments in shares of stock accounted for under the equity method			
Acquisition cost:			
Balance at beginning of year	**₱68,253,749**	₱68,253,749	₱68,347,398
Additional investments during the year	**50,788,343**	—	—
Disposal during the year	**(18,253,749)**	—	(93,649)
Balance at end of year	**100,788,343**	68,253,749	68,253,749
Accumulated equity in net losses:			
Balance at beginning of year	**(102,466,117)**	(94,571,119)	(85,741,383)
Equity in net losses during the year	**(10,395,732)**	(7,894,998)	(8,829,736)
Disposal during the year	**54,765,603**	—	—
Balance at end of year	**(58,096,246)**	(102,466,117)	(94,571,119)
	42,692,097	(34,212,368)	(26,317,370)
Advances to associates and joint ventures:			
Balance at beginning of year	**101,593,021**	100,037,321	88,615,222
Additional advances during the year	**—**	1,555,700	11,422,099
Reclassifications during the year	**84,475,370**	—	—
Disposal during the year	**(90,049,021)**	—	—
Balance at end of year	**96,019,370**	101,593,021	100,037,321
Advances to related parties:			
Balance at beginning of year	**347,364,365**	337,314,418	341,146,306
Additional advances during the year	**733,032**	10,049,947	—
Conversion of advances into equity investments during the year	**(38,288,343)**	—	—
Disposal during the year	**(84,475,370)**	—	(3,831,888)
Balance at end of year	**225,333,684**	347,364,365	337,314,418
Other investments in shares of stock at cost:			
Balance at beginning of year	**—**	126,333,072	125,121,453
Additional investments during the year	**—**	—	1,211,619
Reclassifications during the year	**—**	(126,333,072)	—
Balance at end of year	**—**	—	126,333,072
Total investments and advances	**₱364,045,151**	₱414,745,018	₱537,367,441

The ownership interests in associates and joint ventures accounted for under the equity method consist of the following:

	Percentage of Ownership		Country of
	2006	2005	Incorporation
Associates:			
Real Estate -			
Mont-Aire Realty and Development Corporation (Mont-Aire)	**49.0**	—	Philippines
Advertising Business -			
Image One Multi-Media Corporation (Image One)*	**—**	49.5	- do -
Entertainment Business -			
Film Experts, Inc. (Filmex)	**—**	31.0	- do -
Joint ventures:			
Internet Publishing:			
INQ7 Interactive, Inc. (INQ7)	**50.0**	50.0	- do -
Philippine Entertainment Portal, Inc. (PEP)	**50.0**	—	- do -

* *Includes 15% indirect investment through Alta*

The carrying values of investments accounted for under the equity method and the related advances are as follows:

	2006		
	Investments	**Advances**	**Total**
Associate:			
Mont-Aire	**₱38,316,029**	**₱84,475,370**	**₱122,791,399**
Joint ventures:			
PEP	**12,500,000**	**—**	**12,500,000**
INQ7	**(8,123,932)**	**11,544,000**	**3,420,068**
	₱42,692,097	**₱96,019,370**	**₱138,711,467**

	2005		
	Investments	Advances	Total
Associates:			
Image One	(₱45,946,891)	₱87,565,313	₱41,618,422
Filmex	10,894,571	2,483,708	13,378,279
Joint venture - INQ7	839,952	11,544,000	12,383,952
	(₱34,212,368)	₱101,593,021	₱67,380,653

	2004		
	Investments	Advances	Total
Associates:			
Image One	(₱42,016,739)	₱87,565,313	₱45,548,574
Filmex	11,228,731	1,472,008	12,700,739
Joint venture - INQ7	4,470,638	11,000,000	15,470,638
	(₱26,317,370)	₱100,037,321	₱73,719,951

On November 9, 2004, the BOD approved the conversion to equity of the advances made by the Parent Company to Image One amounting to ₱87.14 million. On March 7, 2006, the SEC approved the conversion.

In 2006, the Parent Company's investments in Image One and Filmex were declared as property dividends to the major shareholders of the Parent Company. The equity in net losses for these investments amounted to ₱1.43 million before the declaration of property dividends.

The Parent Company likewise converted its advances to Mont-Aire into equity investments in 2006. The SEC approved the conversion on February 17, 2006.

Prior to 2005, the Group carries the investment in Optima Digital, Inc. (Optima) using the equity method of accounting and recognized its share in net earnings of Optima. Following the adoption of PAS 39, such investment was classified under "Available-for-sale financial assets" account in the 2005 consolidated balance sheet. Consequently, the accumulated equity in net earnings of Optima has been restated at January 1, 2003 and the cost of investment was reclassified to "Other investment in shares of stock" account under "Investments and advances" account in the 2004 and 2003 consolidated balance sheets.

Following are the condensed financial information of the associates:

		Total Assets	Total Liabilities	Revenue	Net Income (Loss)
Mont-Aire	2006	₱160,275,934	₱94,670,348	₱1,293,159	₱56,503
Filmex	2005	123,050,466	86,734,556	199,939,098	1,848,828
	2004	132,117,674	92,731,425	181,762,816	1,277,071
Image One	2005	36,777,481	128,671,262	29,452,213	(5,929,568)
	2004	51,216,938	135,127,576	30,753,866	(6,278,094)
Optima	2004	144,572,305	71,184,259	141,098,740	14,432,269

The aggregate amounts related to the Group's 50% interest in INQ7 and PEP in 2006 and in INQ7 in 2005 and 2004 follow:

	INQ7			PEP
	2006	2005	2004	**2006**
Current assets	**₱17,206,563**	₱14,218,352	₱10,799,087	**₱12,500,000**
Noncurrent assets	**13,517,355**	16,851,337	20,775,648	—
Current liabilities	**27,255,790**	18,258,953	15,790,966	—
Noncurrent liabilities	**48,059**	426,784	313,131	—
Revenue	**42,539,800**	29,146,418	21,509,060	—
Expenses	**51,503,683**	32,777,104	28,897,787	—
Net loss	**(8,963,883)**	(3,630,686)	(7,388,727)	—

Advances to related parties consist of advances for future conversion to equity in the following companies:

	2006	2005	2004
RGMA Network, Inc. (RGMA)	**₱225,333,684**	₱225,333,684	₱215,946,374
Mont-Aire	**—**	122,030,681	121,368,044
	₱225,333,684	₱347,364,365	₱337,314,418

In 2005, other investments in shares of stock that are quoted in an active market are designated as financial assets at FVPL (see Note 14). Investments in unquoted shares of stock are classified as AFS financial assets (see Note 9). In 2006, these investments were reclassified as AFS financial assets in compliance with the amendment of fair value option under PAS 39 (see Note 3).

On February 21, 2006, the BOD approved the conversion to equity of the advances made by the Parent Company to RGMA amounting to ₱168.00 million. The net effect of the conversion is for the Parent Company to hold or own approximately 48.5% interest in RGMA. The conversion of the Parent Company's advances to RGMA to equity was approved by the SEC on February 6, 2007.

11. Property and Equipment at Cost

The details of property and equipment at cost are as follows:

	2006				
	January 1, 2006	Additions	Disposals	Reclassifications	December 31, 2006
Cost:					
Buildings, towers and improvements	₱1,527,761,200	₱48,785,571	₱—	₱36,099,337	₱1,612,646,108
Antenna and transmitter systems and broadcast equipment	3,101,242,956	218,197,728	(627,718)	43,074,951	3,361,887,917
Communication and mechanical equipment	335,924,875	10,975,040	(392,000)	26,745,236	373,253,151
Transportation equipment	226,107,544	54,586,319	(11,978,048)	8,832,322	277,548,137
Furniture, fixtures and equipment	123,428,630	31,508,433	(4,159,387)	10,420,737	161,198,413
	5,314,465,205	364,053,091	(17,157,153)	125,172,583	5,786,533,726
Accumulated depreciation and amortization:					
Buildings, towers and leasehold improvements	497,496,801	74,509,333	—	—	572,006,134
Antenna and transmitter systems and broadcast equipment	2,277,443,627	220,112,803	(614,093)	39,024	2,496,981,361
Communication and mechanical equipment	218,433,615	25,876,003	—	—	244,309,618
Transportation equipment	101,284,351	50,202,737	(9,684,467)	—	141,802,621
Furniture, fixtures and equipment	73,620,849	39,569,491	(4,351,494)	(39,024)	108,799,822
	3,168,279,243	410,270,367	(14,650,054)	—	3,563,899,556
Equipment for installation	290,319,051	150,715,658	—	(141,499,300)	299,535,409
Net book value	₱2,436,505,013	₱104,498,382	(₱2,507,099)	(₱16,326,717)	₱2,522,169,579

	2005				
	January 1, 2005	Additions	Disposals	Reclassifications	December 31, 2005
Cost:					
Buildings, towers and improvements	₱1,500,892,592	₱18,144,745	(₱1,334,240)	₱10,058,103	₱1,527,761,200
Antenna and transmitter systems and broadcast equipment	2,552,108,364	478,843,852	(19,985,410)	90,276,150	3,101,242,956
Communication and mechanical equipment	256,650,081	76,491,204	(22,273)	2,805,863	335,924,875
Transportation equipment	163,134,777	67,618,894	(4,646,127)	—	226,107,544
Furniture, fixtures and equipment	101,096,958	17,682,339	(717,354)	5,366,687	123,428,630
	4,573,882,772	658,781,034	(26,705,404)	108,506,803	5,314,465,205
Accumulated depreciation and amortization:					
Buildings, towers and improvements	421,874,751	75,954,054	(332,004)	—	497,496,801
Antenna and transmitter systems and broadcast equipment	2,089,983,762	207,167,976	(19,789,133)	81,022	2,277,443,627
Communication and mechanical equipment	158,884,532	59,636,787	(6,682)	(81,022)	218,433,615
Transportation equipment	71,118,254	34,701,957	(4,535,860)	—	101,284,351
Furniture, fixtures and equipment	52,900,987	21,361,443	(641,581)	—	73,620,849
	2,794,762,286	398,822,217	(25,305,260)	—	3,168,279,243
Equipment for installation	203,957,650	200,989,277	—	(114,627,876)	290,319,051
Net book value	₱1,983,078,136	₱460,948,094	(₱1,400,144)	(₱6,121,073)	₱2,436,505,013

	2004				
	January 1, 2004	Additions	Disposals	Reclassifications	December 31, 2004
Cost:					
Buildings, towers and improvements	₱1,482,676,294	₱734,114	₱—	₱17,482,184	₱1,500,892,592
Antenna and transmitter systems and broadcast equipment	2,386,600,069	18,037,507	(10,364)	147,481,152	2,552,108,364
Communication and mechanical equipment	204,659,576	8,042,410	—	43,948,095	256,650,081
Transportation equipment	136,629,204	1,935,636	(10,931,233)	35,501,170	163,134,777
Furniture, fixtures and equipment	74,141,026	16,058,977	(1,401,126)	12,298,081	101,096,958
	4,284,706,169	44,808,644	(12,342,723)	256,710,682	4,573,882,772
Accumulated depreciation and amortization:					
Buildings, towers and improvements	359,144,841	64,667,258	—	(1,937,348)	421,874,751
Antenna and transmitter systems and broadcast equipment	1,822,462,685	267,525,050	—	(3,973)	2,089,983,762
Communication and mechanical equipment	118,023,122	40,861,410	—	—	158,884,532
Transportation equipment	45,900,409	31,985,208	—	(6,767,363)	71,118,254
Furniture, fixtures and equipment	39,215,083	15,087,030	—	(1,401,126)	52,900,987
	2,384,746,140	420,125,956	—	(10,109,810)	2,794,762,286
Equipment for installation	40,151,819	420,516,513	—	(256,710,682)	203,957,650
Net book value	₱1,940,111,848	₱45,199,201	(₱12,342,723)	₱10,109,810	₱1,983,078,136

No borrowing cost was capitalized in 2006, 2005 and 2004.

Property and equipment with total carrying amount of ₱137.84 million in 2004 was used as collaterals for the Parent Company's ₱1.90 billion long-term debt facility (see Note 18). As mentioned in Note 18, the loan was paid in full in 2005. Consequently, there are no pledged assets as of December 31, 2006.

Depreciation and amortization charged to operations amounted to ₱410.27 million, ₱398.82 million and ₱420.13 million in 2006, 2005 and 2004, respectively. These amounts include amortization of capitalized borrowing costs and customs duties and taxes amounting to ₱10.08 million and ₱0.62 million, respectively, in 2006, ₱10.08 million and ₱2.05 million, respectively, in 2005, and ₱10.08 million and ₱16.56 million, respectively, in 2004.

12. Land at Revalued Amounts

This account consists of:

	December 31, 2006	December 31, 2005	December 31, 2004
Cost			
Balance at beginning of year	**₱316,789,136**	₱303,980,246	₱293,382,496
Additions	**7,080,300**	12,808,890	10,597,750
Balance at end of year	**323,869,436**	316,789,136	303,980,246
Revaluation Increment			
Balance at beginning of year	**1,048,014,928**	1,048,014,928	916,566,701
Additions	**—**	—	131,448,227
Balance at end of year	**1,048,014,928**	1,048,014,928	1,048,014,928
	₱1,371,884,364	₱1,364,804,064	₱1,351,995,174

As mentioned in Note 3, the Parent Company's land used in operations were appraised by an independent firm of appraisers on May 18, 2004 and October 18, 2004.

While appraised values of land were not determined as of December 31, 2006 and 2005, the Parent Company's management believes that there were no conditions present in 2006 and 2005 that would significantly reduce the appraised values of the land from that determined in 2004.

13. Investment Properties

The movements in investment properties follow:

	Land and Improvements	Buildings and Improvements	Total
Cost			
Balance at January 1, 2004	₱44,084,199	₱40,097,958	₱84,182,157
Additions	—	—	—
Balance at December 31, 2004	44,084,199	40,097,958	84,182,157
Additions	—	23,224,280	23,224,280
Reclassifications	(2,658,000)	—	(2,658,000)
Balance at December 31, 2005	41,426,199	63,322,238	104,748,437
Additions	—	2,357,398	2,357,398
Declared as property dividends	—	(33,913,451)	(33,913,451)
Reclassifications	—	(464)	(464)
Balance at December 31, 2006	41,426,199	31,765,721	73,191,920
Accumulated Depreciation			
Balance at January 1, 2004	—	21,301,323	21,301,323
Reclassifications from property and equipment at cost (see Note 11)	—	1,937,348	1,937,348
Balance at December 31, 2004	—	23,238,671	23,238,671
Additions	—	1,961,404	1,961,404
Balance at December 31, 2005	—	25,200,075	25,200,075
Additions	—	2,133,452	2,133,452
Disposals	—	(8,894,302)	(8,894,302)
Balance at December 31, 2006	—	18,439,225	18,439,225
Accumulated Impairment in Value			
Balance at January 1, 2004	—	5,978,038	5,978,038
Additions	—	—	—
Balance at December 31, 2004	—	5,978,038	5,978,038
Additions	—	5,410,892	5,410,892
Balance at December 31, 2005	—	11,388,930	11,388,930
Additions	—	—	—
Balance at December 31, 2006	—	11,388,930	11,388,930
Net Book Value			
At December 31, 2006	₱41,426,199	₱1,937,566	₱43,363,765
At December 31, 2005	41,426,199	26,733,233	68,159,432
At December 31, 2004	44,084,199	10,881,249	54,965,448
At January 1, 2004	44,084,199	12,818,597	56,902,796

The fair value of certain investment properties with carrying values of ₱65.33 million as of December 31, 2005 amounted to ₱124.45 million, which was determined based on valuations performed by independent appraisers in November 2005.

While fair values of the investment properties were not determined as of December 31, 2006, the Group's management believes that there were no conditions present in 2006 that would significantly reduce the fair values of the investment properties from that determined in 2005.

The Parent Company also owns several vacant lots in various remote areas in the Philippines with an aggregate area of 5,028 square meters and a carrying value of ₱5.00 million. There were no available fair values for these properties. Consequently, the lots are carried at acquisition costs. Management, however, believes that there has not been a significant reduction in the fair values of these lots.

Certain investment properties totaling to ₱33.91 million were declared as property dividends in 2006.

14. Other Noncurrent Assets

This account consists of:

	2006	2005	2004
Tax credits	**₱79,894,909**	₱73,310,438	₱138,875,302
Guarantee and other deposits (see Note 32)	**28,607,053**	18,386,400	11,988,015
Software costs - net	**19,962,575**	14,724,597	14,800,154
Investment in artworks	**10,406,257**	10,406,257	10,406,257
Financial assets at FVPL (see Note 32)	**—**	7,882,875	—
Derivative assets (see Note 32)	**—**	2,108,002	—
Others	**28,865,412**	9,879,795	2,641,223
	₱167,736,206	₱136,698,364	₱178,710,951

Tax credits represent claims of the Parent Company from the government arising from airing of government commercials and advertisements.

The movements in software costs follow:

	2006	2005	2004
Cost:			
Balance at beginning of year	**₱52,178,850**	₱41,246,661	₱33,379,675
Additions	**14,962,132**	10,932,189	7,866,986
Balance at end of year	**67,140,982**	52,178,850	41,246,661
Accumulated amortization:			
Balance at beginning of year	**37,454,253**	26,446,507	13,315,228
Additions (see Note 24)	**9,724,154**	11,007,746	13,131,279
Balance at end of year	**47,178,407**	37,454,253	26,446,507
Net book value	**₱19,962,575**	₱14,724,597	₱14,800,154

Financial assets at FVPL consist of investments in quoted shares of stock in 2005. Marked-to-market gains amounted to ₱0.76 million in 2005 (see Note 27).

15. Notes Payable

This account primarily consists of unsecured peso-denominated short-term borrowings obtained from various financial institutions, with fixed interest rates ranging from 6.25% to 7.00% in 2006 and 2005 and 7.67% to 9.25% in 2004.

This account also includes proceeds from discounting arrangement. The Parent Company entered into a trade receivables discounting arrangement with a financing institution on a "with recourse" basis, amounting to ₱49.00 million in 2005 and 2004. Under the discounting agreements, the Parent Company undertakes to collect the receivables and retain custodianship of the invoices covering such receivables until the same are collected in full. Collections to be made by the Parent Company from the receivables discounted shall be remitted on the relevant remittance date of the receivables directly to the financing institution. The financing institution may also debit the Parent Company's current or savings account if the Parent Company fails to remit the proceeds of the receivables discounted within two (2) days after the financing institution's written demand.

There were no outstanding trade receivables discounting arrangements as of December 31, 2006.

16. Trade Payables and Other Current Liabilities

This account consists of:

	2006	2005	2004
Trade (see Note 21)	**₱323,560,208**	₱624,220,800	₱414,697,458
Payable to government agencies	**575,040,349**	473,270,891	414,345,931
Accrued expenses	**402,580,383**	355,762,189	236,836,330
Accrued sick and vacation leaves	**137,071,394**	120,413,485	81,962,114
Customers' deposits	**38,572,578**	29,429,476	21,698,360
Due to related parties (see Note 21)	**3,984,553**	3,984,553	11,537,795
Dividends	**—**	—	159,375,374
Others	**25,573,819**	34,519,462	26,428,491
	₱1,506,383,284	₱1,641,600,856	₱1,366,881,853

Trade payables are noninterest-bearing and are normally settled on terms ranging from 7 days to 30 days.

17. Obligations for Program Rights

This account represents liabilities to foreign and local film suppliers for program rights purchased by the Group. The liabilities are noninterest-bearing and are generally payable in equal monthly or quarterly installments over a period of one to two years. The amounts presented as of December 31, 2006 and 2005 represent the face amounts of the obligations net of the unamortized difference between the face amounts and the fair values of the obligations upon initial recognition (the "unamortized discounts"). Unamortized discounts as of December 31, 2006 and 2005 amounted to ₱2.13 million and ₱2.47 million, respectively. In 2004, the obligations are carried at face amounts.

18. Long-term Debt

The balance of the account in 2004 pertains to the loan availed by the Parent Company, as follows:

	Effective Interest Rate	Maturity	2004
₽1.90 billion facility	PHIBOR+1.63%	November 28,	₽531,080,052
Less unamortized debt issuance cost		2005	6,490,045
			524,590,007
Less current portion			524,590,007
			₽—

The loan, which was originally due to mature on November 28, 2005, was paid in full on February 28, 2005. The actual interest rate ranges from 9.21% to 12.04% for the two months ended February 28, 2005 and the year ended December 31, 2004.

19. Stockholders' Equity

a. Capital Stock

The composition of capital stock as of December 31, 2006, 2005 and 2004 is as follows:

	Number of Preferred Shares			Number of Common Shares		
	2006	2005	2004	**2006**	2005	2004
Authorized - ₽0.20 par value per preferred share /₽1.00 par value per common share	**7,500,000,000**	—	—	**3,500,000,000**	2,000,000,000	2,000,000,000
Issued	**7,500,000,000**	—	—	**2,750,000,000**	1,250,000,000	1,062,645,472

The preferred shares are of equal rank, preference and priority and are identical in all respect regardless of series. Preferred shares are participating at the rate of one fifth (1/5th) of the dividend paid to common shares, which rate is adjusted proportionately by the Parent Company's BOD consequent to any stock split or stock dividend declaration affecting the common shares and preferred shares. Preferred shares are convertible at the option of the shareholders at the rate of five (5) preferred shares to one (1) common share, based on par value.

Preferred shares enjoy priority over common shares in the distribution of assets of the Group in the event of its dissolution and liquidation, at such rates, terms and conditions as the BOD may determine. Each preferred share is entitled to one vote and shall have the same voting rights as the common shares.

The Parent Company's BOD may specify other terms and conditions, qualifications, restrictions and privileges of the preferred shares or series/classes thereof, insofar as such terms, conditions, qualifications, restrictions and privileges are not inconsistent with the articles of incorporation and any applicable law or regulation.

b. Retained Earnings

Retained earnings available for dividend declaration amounted to ₱1,940.16 million, ₱4,171.67 million and ₱3,363.68 million as of December 31, 2006, 2005 and 2004, respectively.

On February 17, 2006, the SEC approved the application of the Parent Company to increase its authorized capital stock from ₱2,000 million to ₱5,000 million, divided into 3,500 million common shares with par value of ₱1.00 each and 7,500 million preferred shares with par value of ₱0.20 each. The increase in authorized capital stock of ₱3,000 million, consisting of 1,500 million common shares and 7,500 million preferred shares, was subscribed by the Parent Company's stockholders by means of stock dividends.

On June 13, 2006, the BOD approved the Parent Company's declaration and distribution of property dividends totaling ₱60.46 million to the major stockholders of record as of the same date. The property dividends consist of investments in shares of stock of Image One and Filmex and certain investment properties.

On June 13, 2006, the BOD likewise approved the Parent Company's declaration and distribution of cash dividend of ₱0.46 a share amounting to ₱1,089.54 million to all stockholders of record as of declaration date.

On February 17, 2005 and June 2, 2005, the BOD approved the Parent Company's declaration and distribution of cash dividends totaling ₱0.95 a share amounting to ₱1,187.57 million to all stockholders of record as of declaration date.

Also on February 17, 2005, the BOD approved the Parent Company's declaration and distribution of property dividends to all stockholders of record as of the same date, consisting of investments in shares of stock of Image One amounting to ₱44.01 million. The investments in shares of stock of Image One, which were the subject of property dividend declaration, were only issued in 2006 when the SEC approved Image One's application for increase in authorized capital stock on March 7, 2006.

On November 9, 2004, the BOD approved the Parent Company's declaration and distribution of cash dividends of ₱0.23 a share amounting to ₱286.00 million to all stockholders of record as of declaration date.

20. Parent Company Dividends

Cash dividends declared per share amounted to ₱0.46, ₱0.95 and ₱0.23 in 2006 and 2005 and 2004, respectively.

21. Related Party Disclosures

Transactions with related parties are as follows:

Related Party	Nature of Transaction	Year	Transactions During the Year	Due from Related Parties/ Advances	Due to Related Parties	Trade Receivables (Trade Payables)
INQ7, GMA Kapuso Foundation, Inc. (GMA Foundation) and Alta Tierra Resources, Inc. (Alta Tierra)	Grant of noninterest-bearing advances	2006	₱—	₱11,544,000	₱3,984,553	₱2,631,968
		2005	1,624,000	11,544,000	3,984,553	—
		2004	3,940,351	15,146,721	5,498,085	—
RGMA	Advances for working capital requirements, net of marketing commission expense	2006	—	225,333,684	—	45,078,732
		2005	9,387,310	225,333,684	—	—
		2004	8,591,809	215,946,374	—	—
Mont-Aire	Debt to equity conversion, grant of noninterest-bearing advances	2006	191,791	84,475,370	—	—
		2005	662,637	122,030,681	—	—
		2004	4,759,921	121,368,044	—	—
Image One	Collection remittance	2006	—	—	—	18,796,162
		2005	—	—	—	3,648,250
		2004	10,241,459	—	—	4,730,420
Belo, Gozon, Elma Law (BGE Law), FLG Management and Development Corporation (FLG), San Mateo Management Corporation (San Mateo) and Majent Management and Development Corporation (Majent)	Legal and retainers' fees and others	2006	23,026,400	—	—	(974,400)
		2005	8,792,897	—	—	—
		2004	4,390,433	4,900,311	6,039,710	(28,631,602)

GMA Foundation and Alta Tierra

The Parent Company and Alta Tierra have certain common stockholders. Some of the trustees of GMA Foundation are also the stockholders of the Parent Company.

Mont-Aire

In 2006, Mont-Aire became an associate of the Parent Company. In 2005 and 2004, the Parent Company and Mont-Aire have certain common stockholders. In those years, advances made by the Parent Company to Mont-Aire were intended for future capital subscription.

RGMA

The Parent Company and RGMA have certain common stockholders. Advances made by the Parent Company to RGMA were intended for future capital subscription.

Image One

In 2006, the Parent Company's investments in Image One were declared as property dividends to the major stockholders of the Parent Company.

GMPI has an existing agreement with Image One whereby GMPI shall be the sole and exclusive contractor for the marketing and sale of advertising spots of Image One's electronic outdoor and indoor billboards. In consideration for the said services, GMPI receives from Image One a marketing fee based on a certain percentage of Image One's annual collection.

BGE Law
BGE Law is the legal counsel of the Group. The Parent Company's Chairman of the Board is a principal partner of BGE Law.

FLG, San Mateo, Majent
These companies are owned or partly owned by some officers of the Parent Company and GMPI. GMPI employs the services of these related parties in sourcing and hiring competent and capable personnel and in conducting studies to improve GMPI's capability in providing efficient services to clients.

The compensation of key management personnel of the Group, by benefit type, follows:

	2006	2005	2004
Salaries and other short-term benefits	**₱212,296,605**	₱163,731,804	₱91,852,243
Pension benefits	**22,957,942**	18,643,001	8,910,467
	₱235,254,547	₱182,374,805	₱100,762,710

22. Revenue

This account consists of:

	2006	2005	2004
Television and radio airtime	**₱10,495,641,896**	₱9,606,669,984	₱7,801,027,604
Production and others	**531,455,274**	220,263,183	195,619,070
	₱11,027,097,170	₱9,826,933,167	₱7,996,646,674

23. Production Costs

This account consists of:

	2006	2005	2004
Talent fees	**₱1,745,631,197**	₱1,301,399,213	₱1,220,600,476
Program rights usage (see Note 7)	**581,546,752**	299,072,199	211,304,619
Rental and outside services	**514,509,986**	451,680,646	321,304,894
Tapes, sets and productions supplies	**333,582,961**	312,790,305	231,406,626
Transportation and communication	**121,469,486**	129,726,237	96,073,253
Line production fees	**535,714**	320,609	18,267,713
Facilities and others	**405,545,951**	378,682,090	234,892,848
	₱3,702,822,047	₱2,873,671,299	₱2,333,850,429

24. General and Administrative Expenses

This account consists of:

	2006	2005	2004
Personnel costs (see Note 25)	**₱986,434,911**	₱862,070,109	₱667,180,953
Depreciation and amortization (see Notes 11 and 13)	**412,403,819**	400,783,621	420,125,956
Advertising	**203,677,674**	182,572,096	69,948,275
Communication, light and water	**198,582,120**	164,509,764	122,223,977
Professional fees (see Note 21)	**172,685,122**	105,690,860	134,802,174
Repairs and maintenance	**150,219,791**	134,965,474	104,791,382
Taxes and licenses	**87,664,083**	65,395,954	53,328,791
Sales incentives	**75,085,166**	85,619,146	59,058,604
Rental	**67,801,508**	43,570,197	28,197,097
Transportation and travel	**61,406,085**	48,589,804	32,032,754
Dues and subscriptions	**27,694,199**	28,496,450	31,340,949
Materials and supplies	**22,370,187**	31,809,950	19,129,945
Insurance	**16,189,107**	13,466,834	16,009,656
Entertainment, amusement and recreation	**14,417,118**	15,202,551	15,142,271
Amortization of software costs (see Note 14)	**9,724,154**	11,007,746	13,131,279
Provision for doubtful accounts	**4,168,622**	31,162,605	14,740,054
Others	**102,448,391**	83,995,760	55,297,695
	₱2,612,972,057	₱2,308,908,921	₱1,856,481,812

25. Personnel Costs

This account consists of:

	2006	2005	2004
Salaries and wages	**₱613,319,665**	₱543,058,364	₱400,984,992
Employee benefits and allowances	**256,630,133**	222,687,142	198,541,405
Net pension expense (see Note 26)	**73,834,854**	56,535,539	46,934,106
Sick and vacation leaves expense	**42,650,259**	39,789,064	20,720,450
	₱986,434,911	₱862,070,109	₱667,180,953

26. Pension Benefits

The following tables summarize the components of net pension expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the Group's plan:

Net pension expense consists of:

	2006	2005	2004
Current service cost	**₱31,330,356**	₱22,430,096	₱19,504,317
Interest cost	**40,287,799**	33,693,461	26,791,788
Actuarial losses recognized	**2,323,930**	432,189	656,056
Expected return on plan assets	**(107,231)**	(20,207)	(18,055)
	₱73,834,854	₱56,535,539	₱46,934,106

The details of net pension liability are as follows:

	2006	2005	2004
Fair value of the plan assets	**₱1,487,557**	₱1,340,378	₱252,585
Present value of defined benefit obligation	**(672,369,032)**	(335,731,657)	(240,667,581)
	(670,881,475)	(334,391,279)	(240,414,996)
Unrecognized actuarial losses	**384,408,245**	95,435,979	30,521,799
Net pension liability	**(₱286,473,230)**	(₱238,955,300)	(₱209,893,197)

The changes in the fair value of plan assets are as follows:

	2006	2005	2004
Balance at beginning of year	**₱1,340,378**	₱252,585	₱225,686
Contribution during the year	**26,316,924**	27,473,430	21,928,749
Benefits paid	**(26,316,924)**	(26,473,430)	(21,928,749)
Expected return in plan assets	**107,231**	20,207	18,055
Actuarial gains	**39,948**	67,586	8,844
Balance at end of year	**₱1,487,557**	₱1,340,378	₱252,585
Actual return on plan assets	**₱147,179**	₱87,793	₱26,899

The changes in the present value of the defined benefit obligations are as follows:

	2006	2005	2004
Balance at beginning of year	**₱335,731,657**	₱240,667,581	₱223,231,540
Interest cost	**40,287,799**	33,693,461	26,791,798
Current service cost	**31,330,356**	22,430,096	19,504,317
Benefits paid	**(26,316,924)**	(26,473,430)	(21,928,749)
Actuarial losses (gains)	**291,336,144**	65,413,949	(6,931,325)
Balance at end of year	**₱672,369,032**	₱335,731,657	₱240,667,581

The Group expects to contribute ₱12.17 million to its defined benefit pension plans in 2007.

The principal assumptions used in determining pension benefits obligation for the Group's plans are shown below:

	January 1, 2006	January 1, 2005	January 1, 2004
Discount rate	**12%**	14%	12%
Expected rate of return on plan assets	**8%**	8%	8%
Expected rate of salary increase	**6%**	6%	6%

The discount rate, expected rate of return on plan assets and expected rate of salary increase prevailing as of December 31, 2006 are 8%, 11% and 7%, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The amounts for the current and previous two years are as follows:

	2006	2005	2004
Defined benefit obligation	**₱672,369,032**	₱335,731,657	₱240,667,581
Plan assets	**1,487,557**	1,340,378	252,585
Deficit	**670,881,475**	334,391,279	240,414,996
Experience adjustments on plan liabilities	**15,399,575**	—	—
Experience adjustments on plan assets	**(39,948)**	(67,586)	(8,844)

27. Other Income

This account consists of the following income (expenses):

	2006	2005	2004
Foreign exchange gain (loss) - net	**₱22,536,504**	₱10,853,802	(₱5,313,852)
Commissions from GMA Artists' Center	**11,624,969**	6,250,268	3,382,880
Marked-to-market gains on derivatives (see Note 32)	**6,844,877**	4,722,260	—
Dividends	**5,038,580**	2,537,650	3,015,109
Rental (see Note 28)	**1,995,603**	1,838,180	2,246,039
Reversal of allowance (provision) for impairment of program rights (see Note 7)	**(1,794,047)**	1,428,056	459,681
Gain (loss) on sale of property and equipment - net	**(465,236)**	929,910	1,899,911
Impairment loss on investment properties (see Note 13)	**—**	(5,410,892)	—
Marked-to-market gains on financial assets at FVPL	**—**	760,587	—
Others	**132,215,877**	45,001,046	18,182,111
	₱177,997,127	₱68,910,867	₱23,871,879

"Others" account in 2006 includes reversal of long-outstanding liabilities and accruals amounting to ₱44.58 million.

28. Lease Agreements

The Group entered into various lease agreements for the land, building and studio spaces that it presently occupies for periods ranging from three to twenty five years. The leases are cancelable at the Group's option.

Total rental expense for 2006, 2005, and 2004 amounted to ₱582.31 million, ₱495.25 million and ₱349.50 million respectively (see Notes 23 and 24).

The Group also leases out certain properties. Total rental income for 2006, 2005 and 2004 amounted to ₱2.00 million, ₱1.84 million and ₱2.25 million, respectively (see Note 27).

In 2005, the Parent Company entered into a non-cancelable lease which will expire in 2012. The lease is subject to 10% annual escalation rate of the current rental fees commencing on the third year.

The future minimum rentals payable under the non-cancelable operating lease follow:

	2006	2005
	(In Millions)	
Within one year	**₱80.85**	₱77.00
After one year but not more than five years	**412.75**	375.22
After five years	**62.00**	180.38
	₱555.60	₱632.60

29. Income Taxes

The components of the Parent Company's net deferred tax liabilities are as follows:

	2006	2005	2004
Deferred tax assets:			
Net pension liability	**₱88,172,132**	₱74,065,209	₱56,257,380
Accrued sick and vacation leaves	**43,045,051**	37,228,553	23,344,155
Allowance for doubtful accounts	**19,253,648**	18,025,000	6,080,781
Accrued rent	**8,492,270**	3,302,549	—
Unamortized past service costs	**2,579,062**	3,251,096	3,775,052
Unrealized foreign exchange loss	**—**	—	335,737
Discounting of long-term obligation for program rights	**1,158,769**	1,278,208	—
Others	**628,956**	—	—
	163,329,888	137,150,615	89,793,105
Deferred tax liabilities:			
Revaluation increment in land	**(₱314,404,478)**	(₱314,404,478)	(₱335,364,777)
Unamortized capitalized borrowing costs	**(43,331,758)**	(46,858,762)	(51,595,024)
Unrealized foreign exchange gain	**(2,071,287)**	(2,772,257)	—
Bifurcation of lease contracts	**(1,182,447)**	(1,101,676)	—
Bifurcation of third currency purchase orders	**(848,417)**	(1,391,523)	—
Discounting of program rights	**(417,166)**	(438,196)	—
Unamortized capitalized customs duties and taxes	**—**	(217,718)	(855,292)
	(362,255,553)	(367,184,610)	(387,815,093)
	(₱198,925,665)	(₱230,033,995)	(₱298,021,988)

The components of the net deferred tax assets of the subsidiaries are as follows:

	2006	2005	2004
Deferred tax assets:			
Net pension liability	**₱11,822,220**	₱9,578,400	₱10,859,580
Accrued sick and vacation leaves	**5,613,547**	5,238,223	2,806,948
Allowance for impairment loss	**1,893,812**	1,893,812	—
NOLCO	**1,382,266**	829,599	—
MCIT	**480,553**	238,500	—
Unrealized foreign exchange loss	**457,082**	506,674	—
Allowance for doubtful accounts	**384,718**	224,350	205,120
	22,034,198	18,509,558	13,871,648
Deferred tax liabilities:			
Unrealized foreign exchange gain	**(97,173)**	(27,289)	(124,408)
Deferred rental income	**(58,985)**	—	—
	(156,158)	(27,289)	(124,408)
	₱21,878,040	₱18,482,269	₱13,747,240

The reconciliation between the statutory income tax rates and effective income tax rates on income before income tax is shown below:

	2006	2005	2004
Statutory income tax rates	**35.00%**	32.50%	32.00%
Additions (deductions) in income tax rates resulting from:			
Interest income already subjected to final tax	**(0.15)**	(0.25)	(0.25)
Equity in net losses of associates and joint venture	**0.12**	0.09	0.13
Impairment losses on investments and program rights	**0.02**	0.04	—
Effect of change in tax rates	**0.05**	(0.55)	—
Others - net	**(0.15)**	0.10	0.18
Effective income tax rates	**34.89%**	31.93%	32.06%

30. EPS Computation

The computation of basic EPS follows:

	2006	2005	2004
Net income (a)	**₱1,962,499,293**	₱2,005,250,376	₱1,500,596,730
Less attributable to preferred shareholders	**613,281,029**	—	—
Net income attributable to common shareholders (b)	**₱1,349,218,264**	₱2,005,250,376	₱1,500,596,730
Weighted average number of common shares for basic EPS (c)	**2,750,000,000**	2,750,000,000	2,750,000,000
Basic EPS (b/c)	**₱0.491**	₱0.729	₱0.546

The computation of diluted EPS in 2006 follows:

Net income (a)	₱1,962,499,293
Weighted average number of common shares	2,750,000,000
Effect of dilution - assumed conversion of preferred shares	1,250,000,000
Weighted average number of common shares adjusted for the effect of dilution (d)	4,000,000,000
Diluted EPS (a/d)	₱0.491

There have been no other transactions involving common shares between December 31, 2006 and March 15, 2007.

As mentioned in Note 19, the SEC approved the increase in the Parent Company's authorized capital stock from ₱2,000 million to ₱5,000 million on February 17, 2006.

31. Financial Risk Management Objectives and Policies

Financial Risk Management Objectives and Policies

The Group's principal financial instruments include nonderivative instruments such as cash and cash equivalents, short-term investments, guarantee and other deposits, short-term and long-term loans and obligations for program rights. The main purpose of these financial instruments includes raising financing for the Group's operations and managing identified financial risks. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the use of financial instruments are liquidity risk, foreign exchange risk, interest rate risk and credit risk.

The BOD reviews and approves the Group's objectives and policies.

Liquidity Risk. The Group is exposed to the possibility that adverse changes in the business environment and/or its operations would result to substantially higher working capital requirements and the subsequent difficulty in financing additional working capital.

The Group manages liquidity risk by maintaining a pool of credit lines from financial institutions that exceeds expected financing requirements for working capital. The Group likewise regularly evaluates other financing instruments and arrangements to broaden the Group's range of financing sources.

Foreign Exchange Risk. The Group's exposure to foreign exchange risk results from its business transactions denominated in foreign currencies. It is the Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange risk.

The Group's foreign currency-denominated monetary assets and liabilities amounted to ₱150.84 million (US$2.97 million) and ₱159.85 million (US$3.26 million), respectively, as of December 31, 2006, ₱50.88 million (US$0.93 million) and ₱306.57 million (US$5.78 million), respectively, as of December 31, 2005 and ₱13.60 million (US$0.24 million) and ₱167.80 million (US$2.97 million), respectively, as of December 31, 2004.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱49.03 to US$1.00, ₱53.09 to US$1.00 and ₱56.34 to US$1.00, the Philippine peso to US dollar exchange rates as of December 31, 2006, 2005 and 2004, respectively.

Interest Rate Risk. The Group's exposure to changes in interest rates is minimal as the Group has no long-term obligations.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

Credit Risk. Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of products are made to customers with appropriate credit history. The Group has an internal mechanism to monitor the granting of credit and management of credit exposures. The Group has made provisions, where necessary, for potential losses on credits extended.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

Counterparties to financial instruments consist of a large number of prime financial institutions. The Group does not expect any counterparty to default in its obligations, given the high credit ratings. The Group has no significant concentration of credit risk with any counterparty.

32. Financial Assets and Liabilities

The table below presents a comparison by category of carrying amounts and fair values of all of the Group's financial instruments as of December 31, 2006 and 2005.

	2006		2005	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱306,600,439**	**₱306,600,439**	₱490,604,935	₱490,604,935
Short-term investments	**226,352,970**	**226,352,970**	—	—
Trade and other receivables - net	**3,830,713,778**	**3,830,713,778**	3,105,734,708	3,105,734,708
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets)	**3,759,775**	**3,759,775**	4,722,260	4,722,260
AFS financial assets	**97,346,586**	**97,346,586**	110,415,259	110,415,259
Financial assets at FVPL (included under "Other noncurrent assets" account in the consolidated balance sheets)	**—**	**—**	7,882,875	7,882,875
Guarantee and other deposits (included under "Other noncurrent assets" account in the consolidated balance sheets)	**9,368,672**	**9,362,844**	6,957,811	6,153,770
Financial Liabilities				
Notes payable	**577,100,000**	**569,430,018**	276,600,000	276,600,000
Trade payables and other current liabilities	**1,506,383,284**	**1,506,383,284**	1,641,600,856	1,641,600,856
Obligations for program rights (including current maturities)	**172,758,147**	**172,758,147**	337,014,885	337,004,938

Fair Value of Financial Instruments
The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments and Trade and Other Receivables. The carrying amounts of cash and cash equivalents, short-term investments and trade and other receivables approximate fair values primarily due to the relatively short-term maturity of these financial instruments.

AFS Financial Assets. These are investments in quoted and unquoted shares of stock. The fair value of quoted shares is based on quoted market prices. In the absence of a reliable basis in determining fair values of unquoted shares, the investments are carried at cost, net of impairment in value.

Financial Assets at FVPL. The fair values are based on quoted market prices.

Guarantee and Other Deposits. The fair value of guarantee and other deposits is based on the present value of the future discounted cash flows. Discount rates used range from 5.11% to 5.52%.

Notes Payable. The carrying value of notes payable that re-priced every 3 months approximates fair value because of the recent and regular repricing based on current market rates. For fixed rate notes payable, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing rate from the period up to the next repricing date. Discount rates used range from 5.11% to 5.52%.

Trade Payables and Other Current Liabilities. The carrying amount of trade payables and other current liabilities approximates fair value due to the relatively short-term maturity of these financial instruments.

Obligations for Program Rights. In 2006, the carrying value of obligations for program rights approximates fair value due to the relatively short-term maturity of these instruments. In 2005, the fair values are calculated by discounting future cash flows at prevailing market rates. Discount rates used range from 3.79% to 7.64%.

Derivatives. The fair values of bifurcated embedded currency forwards are calculated by reference to current forward exchange rates for contracts with similar maturity profile.

Embedded Derivatives
Embedded foreign currency derivatives were bifurcated from the Parent Company's lease and purchase contracts, which are denominated in a currency that is neither the functional currency of a substantial party to the contract nor the routine currency for the transaction. As of December 31, 2006, the total outstanding notional amount of such embedded foreign currency derivatives amounted to US$1.92 million. The net movements in fair value changes of these embedded derivatives are as follows:

	2006	**2005**
Balance at beginning of year	**₱4,722,260**	(₱1,876,382)
Net changes in fair value during the year	**6,844,877**	4,722,260
Fair value of settled contracts	**(7,807,362)**	1,876,382
Balance at end of year	**₱3,759,775**	₱4,722,260

The net changes in fair value during the year are included under "Other income" account in the consolidated statements of income.

In 2006, the net marked-to-market gain on the outstanding embedded derivatives amounted to ₱3.76 million, included under "Prepaid expenses and other current assets" account in the consolidated balance sheets.

In 2005, the net marked-to-market gain on the outstanding embedded derivatives amounted to ₱4.72 million, of which current and noncurrent portions of ₱2.61 million and ₱2.11 million, respectively, are included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts in the consolidated balance sheets.

33. Other Matters

a. A complaint for illegal dismissal and damages has been filed by a former corporate officer against the Parent Company, GMPI and the Chairman and Chief Executive Officer of GMPI. On July 14, 2003, the National Labor Relations Commission (NLRC) issued a decision in favor of the Parent Company dismissing said complaint. Plaintiff filed a Petition for Certiorari with the Court of Appeals (Court) which as of March 15, 2007 has not yet been decided by the Court. However, on the basis of the information provided by the Parent Company's legal counsel, management believes that the Court will most likely affirm the decision of the NLRC.

b. The Parent Company is a defendant in legal cases for copyright infringement, injunctions and damages which are still pending resolution in the Regional Trial Court (RTC). As of March 15, 2007, no resolution has been issued by RTC. Also, complaints for recovery of retirement and other benefits and illegal dismissal of employees have been filed against the Parent Company. The Parent Company's management and legal counsel believe that the outcome of these cases will not have a material adverse effect on the consolidated financial statements.

c. Republic Act No. 9337 was enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced are as follows:

    i. Increase in the corporate income tax rate from 32% to 35%, with reduction thereof to 30% beginning January 1, 2009;

    ii. Increased the 10% VAT rate to 12%, effective February 1, 2006;

    iii. Revised invoicing and reporting requirements for VAT;

    iv. Expanded scope of transactions subject to VAT; and

    v. Provided thresholds and limitation on the amount of VAT credits that can be claimed.

REPORT ON REVIEW OF UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
GMA Network, Inc.

Introduction

We have reviewed the accompanying interim financial statements of GMA Network, Inc. and subsidiaries, which comprise the unaudited interim consolidated balance sheets as at March 31, 2007 and 2006, and the unaudited interim consolidated statements of income, unaudited interim consolidated statements of changes in stockholders' equity and unaudited interim consolidated statements of cash flows for the three-month periods then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these unaudited interim consolidated financial statements in accordance with Philippine Financial Reporting Standards. Our responsibility is to express a conclusion on these unaudited interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim consolidated financial statements do not present fairly, in all material respects, the financial position of GMA Network, Inc. and subsidiaries as of March 31, 2007 and 2006, and their financial performance and their cash flows for the three-month periods then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0267366, January 2, 2007, Makati City

June 2, 2007

GMA NETWORK, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS
MARCH 31, 2007 AND 2006

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 31)	**₱1,043,618,597**	₱497,051,983
Short-term investments (Note 31)	**220,652,402**	4,340,392
Trade and other receivables - net (Notes 6 and 31)	**3,086,783,075**	3,111,053,711
Program rights - net (Note 7)	**979,329,932**	1,059,218,647
Prepaid expenses and other current assets (Notes 8 and 31)	**299,406,649**	252,894,687
Total Current Assets	**5,629,790,655**	4,924,559,420
Noncurrent Assets		
Available-for-sale financial assets (Notes 9 and 31)	**100,368,887**	120,189,675
Investments and advances (Note 10)	**364,950,487**	371,333,448
Property and equipment at cost - net (Note 11)	**2,528,565,843**	2,441,929,126
Land at revalued amounts (Note 12)	**1,371,884,364**	1,364,804,064
Investment properties - net (Note 13)	**43,007,034**	67,378,784
Deferred tax assets - net (Note 28)	**22,345,790**	18,887,636
Other noncurrent assets - net (Notes 14 and 31)	**167,062,942**	127,260,781
Total Noncurrent Assets	**4,598,185,347**	4,511,783,514
	₱10,227,976,002	₱9,436,342,934
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable (Notes 15 and 31)	**₱310,700,000**	₱227,100,000
Trade payables and other current liabilities (Notes 16 and 31)	**2,670,788,730**	1,299,758,950
Income tax payable	**761,568,710**	667,939,170
Obligations for program rights (Notes 17 and 31)	**131,090,578**	306,672,140
Total Current Liabilities	**3,874,148,018**	2,501,470,260
Noncurrent Liabilities		
Pension liability (Note 25)	**307,859,467**	253,101,261
Deferred tax liabilities - net (Note 28)	**180,869,166**	221,867,712
Total Noncurrent Liabilities	**488,728,633**	474,968,973
Stockholders' Equity		
Capital stock (Note 18)	**4,250,000,000**	4,250,000,000
Revaluation increment in land - net (Notes 12 and 28)	**733,610,450**	733,610,450
Net unrealized gain (loss) on available-for-sale financial assets (Note 9)	**593,285**	(2,126,965)
Retained earnings (Notes 10, 18 and 19)	**880,895,616**	1,478,420,216
Total Stockholders' Equity	**5,865,099,351**	6,459,903,701
	₱10,227,976,002	₱9,436,342,934

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 AND 2006

	2007	2006
REVENUE (Note 21)	**₱2,554,559,556**	₱2,353,195,296
LESS REVENUE DEDUCTIONS		
Agency and marketing commissions	**376,925,680**	367,051,178
Co-producer's share	**25,407,348**	33,379,660
	402,333,028	400,430,838
NET REVENUE	**2,152,226,528**	1,952,764,458
PRODUCTION COSTS (Note 22)	**885,973,858**	860,337,093
GROSS PROFIT	**1,266,252,670**	1,092,427,365
GENERAL AND ADMINISTRATIVE EXPENSES (Note 23)	**(595,592,068)**	(575,361,904)
INTEREST INCOME FROM SHORT-TERM INVESTMENTS	**12,758,391**	3,377,619
INTEREST EXPENSE AND FINANCING CHARGES ON SHORT-TERM LOANS (Note 15)	**(6,196,727)**	(3,931,332)
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES (Note 10)	**(1,148,371)**	607,645
OTHER INCOME - Net (Notes 26 and 31)	**1,216,795**	26,252,162
INCOME BEFORE INCOME TAX	**677,290,690**	543,371,555
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 28)		
Current	**255,692,837**	200,038,713
Deferred	**(19,137,729)**	(7,426,363)
	236,555,108	192,612,350
NET INCOME FOR THE PERIOD	**₱440,735,582**	₱350,759,205
Basic Earnings Per Share (Note 29)	**₱0.10**	₱0.11
Diluted Earnings Per Share (Note 29)	**₱0.10**	₱0.11

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 AND 2006

	Capital Stock (Note 18)	**Revaluation Increment in Land - Net** (Notes 12 and 28)	**Net Unrealized Gain (Loss) on Available-for-sale Financial Assets** (Note 9)	**Retained Earnings** (Notes 10, 18 and 19)	**Total Stockholders' Equity**
At January 1, 2007	**₱4,250,000,000**	**₱733,610,450**	**(₱546,035)**	**₱1,940,160,034**	**₱6,923,224,449**
Gain for the period recognized directly in equity	**—**	**—**	**1,139,320**	**—**	**1,139,320**
Net income for the period	**—**	**—**	**—**	**440,735,582**	**440,735,582**
Total income and expense for the period	**—**	**—**	**1,139,320**	**440,735,582**	**441,874,902**
Cash dividends	**—**	**—**	**—**	**(1,500,000,000)**	**(1,500,000,000)**
At March 31, 2007	**₱4,250,000,000**	**₱733,610,450**	**₱593,285**	**₱880,895,616**	**₱5,865,099,351**
At January 1, 2006	₱1,250,000,000	₱733,610,450	₱—	₱4,171,668,411	₱6,155,278,861
Loss for the period recognized directly in equity	—	—	(2,126,965)	—	(2,126,965)
Net income for the period	—	—	—	350,759,205	350,759,205
Total income and expense for the period	—	—	(2,126,965)	350,759,205	348,632,240
Stock dividends	3,000,000,000	—	—	(3,000,000,000)	—
Property dividends	—	—	—	(44,007,400)	(44,007,400)
At March 31, 2006	₱4,250,000,000	₱733,610,450	(₱2,126,965)	₱1,478,420,216	₱6,459,903,701

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

GMA NETWORK, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱677,290,690**	₱543,371,555
Adjustments for:		
Program rights usage (Notes 7 and 22)	**158,993,779**	135,453,240
Depreciation and amortization (Note 23)	**103,890,858**	100,018,530
Interest income from short-term investments	**(12,758,391)**	(3,377,619)
Interest expense and financing charges on short-term loans (Note 15)	**6,196,727**	3,931,332
Marked-to-market losses (gains) on derivatives (Note 26)	**3,177,794**	(1,139,564)
Unrealized foreign exchange loss (gain)	**2,565,203**	(7,798,375)
Amortization of software costs (Notes 14 and 23)	**2,437,072**	2,244,508
Loss on sale of property and equipment (Note 26)	**1,836,518**	—
Equity in net losses (earnings) of associates and joint ventures (Note 10)	**1,148,371**	(607,645)
Dividend income (Note 26)	**(3,150)**	(4,450)
Impairment of program rights carried at perpetuity (Note 7)	**—**	1,794,047
Operating income before working capital changes	**944,775,471**	773,885,559
Net pension expense (Note 24)	**25,541,299**	16,907,425
Sick and vacation leaves expense (Note 24)	**24,715,470**	20,024,139
Provision for doubtful accounts (Note 23)	**15,000,000**	1,497,420
Decrease (increase) in:		
Trade and other receivables	**732,962,800**	(7,878,243)
Program rights (Note 7)	**(107,263,738)**	(195,391,444)
Prepaid expenses and other current assets	**(51,542,089)**	(10,157,952)
Decrease in:		
Trade payables and other current liabilities	**(256,883,264)**	(354,780,750)
Pension liability	**(4,155,062)**	(2,761,464)
Obligations for program rights	**(42,759,045)**	(21,748,254)
Cash generated from operations	**1,280,391,842**	219,596,436
Income taxes paid	**(63,289,416)**	(41,436,369)
Net cash provided by operating activities	**1,217,102,426**	178,160,067
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 11)	**(₱114,813,026)**	(₱109,367,052)
Decrease (increase) in:		
Short-term investments	**5,700,568**	(4,340,392)
Other noncurrent assets - net	**(3,033,309)**	(5,853,593)
Investments and advances	**(2,053,707)**	11,815
Interest received	**8,822,451**	4,439,439
Proceeds from sale of property and equipment	**132,087**	43,125
Cash dividends received	**3,150**	4,450
Net cash used in investing activities	**(105,241,786)**	(115,062,208)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Notes payable	**(266,400,000)**	(49,500,000)
Cash dividends	**(99,965,016)**	—
Interest and financing charges paid	**(6,917,944)**	(6,370,559)
Net cash used in financing activities	**(373,282,960)**	(55,870,559)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,559,522)**	(780,252)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**737,018,158**	6,447,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**306,600,439**	490,604,935
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱1,043,618,597**	₱497,051,983

See accompanying Notes to Unaudited Interim Consolidated Financial Statements.

1. Corporate Information

GMA Network, Inc. (the Parent Company) and subsidiaries (collectively referred to as "the Group") are incorporated in the Philippines. The Group is primarily involved in the business of radio and television broadcasting. The Group is also involved in film production and other information and entertainment-related businesses. The registered office address of the Parent Company is GMA Network Center, Timog Avenue corner EDSA, Quezon City.

GMA Network, Inc. is the ultimate parent company of the Group.

The accompanying unaudited interim consolidated financial statements of the Group as of and for the three months period ended March 31, 2007 and 2006 were authorized for issue by the Board of Directors (BOD) on June 2, 2007.

2. Basis of Preparation

The unaudited interim consolidated financial statements of the Group have been prepared using the historical cost basis, except for derivative financial instruments, available-for-sale (AFS) financial assets and financial assets at fair value through profit or loss (FVPL) which have been measured at fair value and land used in operations which is carried at revalued amounts. The unaudited interim consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and reporting currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying unaudited interim consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) issued by the Financial Reporting Standards Council.

Changes in Accounting Policies

The Group adopted the following new and amended standards and Philippine interpretations effective January 1, 2007:

- PFRS 7, *Financial Instruments: Disclosures,* introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The adoption of this standard did not have any effect on the financial position of the Group. It did, however, give rise to additional disclosures. The new disclosures are included throughout the unaudited interim consolidated financial statements.

- PAS 1, *Amendment to Presentation of Financial Statements,* requires the Group to make additional disclosures to enable the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The adoption of this amendment did not have any effect on the financial position of the Group. It did, however, give rise to additional disclosures. These new disclosures are shown in Note 30.

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, becomes effective for financial years beginning on or after March 1, 2006. This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The adoption of Philippine Interpretation IFRIC 7 did not have a significant impact on the unaudited interim consolidated financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2,* becomes effective for financial years beginning on or after May 1, 2006. This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The adoption of the interpretation has no significant impact on the unaudited interim consolidated financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The adoption of this interpretation has no significant impact on the unaudited interim consolidated financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment,* becomes effective for financial years beginning on or after November 1, 2006. It provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The adoption of Philippine Interpretation IFRIC 10 has no significant effect on the unaudited interim consolidated financial statements.

Future Changes in Accounting Policies

- PFRS 8, *Operating Segments,* will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheets and consolidated statements of income and companies will need to provide explanations and reconciliations of the differences. The Group will assess the impact of this standard to its current manner of reporting segment information when it adopts the standard on January 1, 2009.

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions,* will be effective on March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed.

It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group does not expect this interpretation to have a significant impact on its consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement,* will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the Group's consolidated financial statements as this is not relevant to its current operations.

Basis of Consolidation

The unaudited interim consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership
Entertainment Business:		
Citynet Network Marketing and Productions, Inc.*	Philippines	100
GMA Network Films, Inc.	- do -	100
GMA New Media, Inc. (GNMI)	- do -	100
GMA Worldwide (Philippines), Inc.	- do -	100
RGMA Network Marketing & Productions, Inc.****	- do -	100
Scenarios, Inc.	- do -	100
Advertising Business:		
Alta Productions Group, Inc. (Alta)	- do -	100
GMA Marketing & Productions, Inc. (GMPI)	- do -	100
Others:		
MediaMerge Corporation **	- do -	100
Ninja Graphics, Inc. (Ninja) ***	- do -	51

* *Ceased commercial operations in 2001*

** *Indirectly owned through GNMI; formerly Digital Kitchen, Inc.; started commercial operations in 2007*

*** *Indirectly owned through Alta; ceased commercial operations in 2001*

**** *Started operations in 2004*

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The unaudited interim consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The unaudited interim financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company. Intercompany balances and transactions, including intercompany and unrealized profits and losses, are eliminated in full.

Minority interest in Ninja as of March 31, 2007 and 2006 has been reduced to zero because Ninja is in a net capital deficiency position during those periods.

3. Summary of Significant Accounting and Financial Reporting Policies

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

Short-term Investments
Short-term investments include highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but not more than one year from dates of acquisition and are subject to an insignificant risk of change in value.

Program Rights
Program rights with finite lives are stated at amortized cost less any impairment in value. The cost is: (1) charged directly to income on the first airing of the program if program cost is below a certain amount set by management; or (2) amortized to the extent of 70% on the first airing and 30% on the second airing if program cost exceeds the amount set by management (70-30 amortization rule).

For series, the cost is charged to income as aired on a per episode basis.

For rights intended for airing over the international channels, the cost is amortized on straight-line basis over the number of years indicated in the contract.

For rights carried at perpetuity, the 70-30 amortization rule shall apply on the amount.

Materials and Supplies Inventory
Materials and supplies inventory (included under "Prepaid expenses and other current assets" account in the unaudited interim consolidated balance sheets) is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the current replacement cost.

Financial Assets and Liabilities
Date of Recognition. The Group recognizes a financial asset or a financial liability in the unaudited interim consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL financial assets and loans and receivables. Financial liabilities are further classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the unaudited interim consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the unaudited interim consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

<u>Financial Assets</u>
Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the unaudited interim consolidated statements of income.

Financial assets may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;

- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Classified as financial assets at FVPL are the Parent Company's bifurcated embedded derivatives (see Note 31).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Group's short-term investments, trade and other receivables and guarantee and other deposits (see Notes 6 and 14).

HTM Investments. HTM investments are quoted nonderivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the unaudited interim consolidated statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Group has no investments classified as HTM as of March 31, 2007 and 2006.

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the unaudited interim consolidated balance sheets. Changes in the fair value of such assets are reported as revaluation reserve for AFS financial assets in the stockholders' equity section of the unaudited interim consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in stockholders' equity is transferred to the unaudited interim consolidated statements of income. Interest earned on holding AFS financial assets are recognized in the unaudited interim consolidated statements of income using the effective interest rate. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Group has investments in various quoted and unquoted shares of stocks classified under this category (see Note 9).

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivatives transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group has no financial liabilities classified under this category as of March 31, 2007 and 2006.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes notes payable, trade payables and other current liabilities and obligations for program rights (see Notes 15, 16 and 17).

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

The Group evaluates the existence of an embedded derivative at the date the Group becomes a party to the contract with reassessment only if there is a change to the contract that significantly modifies the cash flows.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

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

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired. A financial asset or group of financial asset is impaired and impairment loss is incurred if, and only if, the Group determines that there is a financial difficulty on the part of its customers and it becomes probable that its customers will enter bankruptcy and other financial reorganization. Allowance for doubtful accounts are written off and considered worthless when all means of collection efforts have been exhausted.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in the unaudited interim consolidated statements of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the unaudited interim consolidated statements of income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. If an AFS asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from stockholders' equity to the unaudited interim consolidated statements of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. No impairment losses were recognized during the year.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the unaudited interim consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the unaudited interim consolidated balance sheets.

Investments in Associates

The Group's investments in associates are accounted for under the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. The investments in associates are carried in the unaudited interim consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the associates, less any impairment in value. The unaudited interim consolidated statements of income include the Group's share in the results of operations of the associates. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the associates, against the investments in the associates. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Advances to Associates

Advances to associates are stated at face value less allowance for any uncollectible accounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Interests in Joint Ventures

The Group's interests in joint ventures are accounted for using the equity method, similar to investments in associates described above.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties and borrowing costs and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes any asset retirement obligation. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Construction in progress and equipment for installation are stated at cost. Construction in progress and equipment for installation are not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the assets:

Buildings, towers and improvements	20 years
Antenna and transmitter systems and broadcast equipment	5-10 years
Communication and mechanical equipment	3-5 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years

The remaining useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts; any resulting gain or loss is credited or charged to current operations.

Land

Following initial recognition at cost, land used in operations is carried at revalued amount, which is the fair value at the date of the revaluation, less any subsequent accumulated impairment losses. Fair value was determined by an independent firm of appraisers on May 18, 2004 and October 18, 2004. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

The revaluation increment resulting from the revaluation, net of deferred tax liability, is credited to the "Revaluation increment in land" account included in the stockholders' equity section of the unaudited interim consolidated balance sheets.

Upon disposal, the revaluation increment relating to the asset being sold is transferred to retained earnings. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the unaudited interim consolidated statements of income in the year the asset is derecognized.

Investment Properties

Investment properties consist of real estate held for capital appreciation. Investment properties, except land, are measured at cost less accumulated depreciation and any impairment in value. Land is stated at cost less any impairment in value.

Depreciation is computed using the straight-line method over 20 years.

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

Transfers are made to investment property when, and only when, there is a change in use, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the Group's occupation or commencement of development with a view to sale.

Investment in Artworks

Investment in artworks (included under "Other noncurrent assets" account in the unaudited interim consolidated balance sheets) is stated at cost less any impairment in value.

Software Costs

Costs incurred in the acquisition and customization of new software (included under "Other noncurrent assets" account in the unaudited interim consolidated balance sheets) are capitalized and amortized on a straight-line basis over three years.

Impairment of Nonfinancial Assets

The carrying values of property and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property and equipment is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the unaudited interim consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charges are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured.

Airtime revenue is recognized on the date the advertisement is aired.

Goods received in exchange for airtime usage pursuant to ex-deal contracts executed between the Group and its customers are recorded at fair market values of assets received. Fair market value is the current market price.

Tax credits on aggregate airtime credits from government sales availed of under Presidential Decree No. 1362 are recognized as income when there is reasonable certainty that these can be used to pay duties and taxes on imported capital equipment.

Subscription income is recognized on an accrual basis in accordance with the terms of subscription agreements.

Commission is recognized as income on an accrual basis in accordance with the terms of the related marketing agreements.

Rental income from property and equipment is accounted for on a straight-line basis over the lease term.

Dividend income is recognized when the Group's right to receive the payment is established.

Interest income is recognized as the interest accrues, taking into account the effective yield of the asset.

Research Costs

Research costs are expensed as incurred.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Pension Costs

The Parent Company and some of its subsidiaries have funded, noncontributory retirement plans covering their permanent employees. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plans at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, pension plans, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plans.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plans, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognized as expense in the unaudited interim consolidated statements of income on a straight-line basis over the lease term.

Foreign Currency Transactions

The unaudited interim consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at balance sheet date. All differences are taken to the unaudited interim consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Taxes

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to the items recognized directly in equity is recognized in equity and not in the unaudited interim consolidated statements of income.

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

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the unaudited interim consolidated balance sheets.

Earnings Per Share (EPS)
Basic EPS is computed by dividing the net income, net of income attributable to preferred shares, by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Diluted EPS is calculated by dividing the net income (inclusive of income attributable to preferred shares) by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued upon conversion of all dilutive potential common shares.

Contingencies
Contingent liabilities are not recognized in the unaudited interim consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the unaudited interim consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events After Balance Sheet Date
Post-balance sheet events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the unaudited interim consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes to unaudited interim consolidated financial statements when material.

Segment Reporting
The Group considers television operations as the major business segment. This accounts for about 95% of the Group's gross revenue, net income, assets and liabilities. Other operations account for less than 5% of the Group's gross revenue, net income, asset and liabilities.

4. Significant Accounting Judgments and Estimates

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the unaudited interim consolidated financial statements and related notes.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the unaudited interim consolidated financial statements:

Operating Leases. The Group has entered into various lease agreements as a lessee. The lease agreements are accounted for as operating leases with the lessor retaining all significant risks and rewards of ownership of these properties.

Rent expense charged to operations amounted to ₱140.49 million and ₱139.04 million for the three-month periods ended March 31, 2007 and 2006, respectively (see Notes 22 and 23).

Functional Currency. The Group has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Group operates.

Estimates
The estimates and assumptions used in the unaudited interim consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's financial statements. Actual results could differ from such estimates.

Estimating Allowances for Doubtful Accounts. Provisions are made for specific and groups of accounts where objective evidence of impairment exists. The Group evaluates these accounts, based on the available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers and the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Trade and other receivables, net of allowance for doubtful accounts, amounted to ₱3,086.78 million and ₱3,111.05 million as of March 31, 2007 and 2006, respectively (see Note 6).

Estimating Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets amounted to ₱200.03 million and ₱163.84 million as of March 31, 2007 and 2006, respectively (see Note 28).

Amortization of Program Rights. The Group estimates the amortization method of program rights with finite lives based on the manner and pattern of usage of the acquired program rights. The Group estimates that programs are more marketable in their initial airing as compared to the succeeding airings. In addition, estimation of the amortization method of program rights is based on industry practice and experience with such rights. The Group also estimates residual values on program rights carried at perpetuity at an amount set by management which is a certain percentage of the acquisition cost. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Program rights, net of accumulated impairment loss, amounted to ₱979.33 million and ₱1,059.22 million as of March 31, 2007 and 2006, respectively (see Note 7).

Estimating Useful Lives of Property and Equipment and Investment Properties. The Group estimates the useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment properties would increase recorded operating expenses and decrease noncurrent assets.

Property and equipment, net of accumulated depreciation, amortization and impairment loss, amounted to ₱2,528.56 million and ₱2,441.93 million as of March 31, 2007 and 2006, respectively (see Note 11). Investment properties, net of accumulated depreciation and impairment in value, amounted to ₱43.01 million and ₱67.38 million as of March 31, 2007 and 2006, respectively (see Note 13).

Asset Retirement Obligation. Determining asset retirement obligation requires estimation of the cost of dismantling, installation and restoring leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as of March 31, 2007 and 2006.

Revaluation of Land. The Group engages Cuervo Appraisers, Inc., an accredited independent appraiser, to determine the fair value of the land used in operations. Fair value is determined by reference to market-based evidence.

The revalued amount of land amounted to ₱1,371.88 million and ₱1,364.80 million as of March 31, 2007 and 2006, respectively (see Note 12).

Impairment of AFS Financial Assets. The Group treats AFS financial asset as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% more of the original cost of investment, and 'prolonged' as greater than 6 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The Group's AFS financial assets amounted to ₱100.37 million and ₱120.19 million as of March 31, 2007 and 2006, respectively.

Impairment of Nonfinancial Assets. For property and equipment and other long-lived assets, impairment testing is performed whenever there is an indication that the assets are impaired. Determining the net recoverable value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the unaudited interim consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse impact on the results of operations.

The aggregate amount of investments and advances, property and equipment, land and investment properties amounted to ₱4,308.41 million and ₱4,245.44 million as of March 31, 2007 and 2006, respectively (see Notes 10, 11, 12 and 13).

Pension and Other Retirement Benefits. The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 25 and include, among others, discount rates, expected rates of return on plan assets and expected rates of salary increase. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

The net pension liability amounted to ₱307.86 million and ₱253.10 million as of March 31, 2007 and 2006, respectively (see Note 25).

Financial Assets and Liabilities. The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates). However, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities are enumerated in Note 31.

Contingencies. The Group currently has various legal claims. The Group's estimates of the probable costs for the resolution of these claims have been developed in consultation with in-house, as well as outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group currently does not believe these legal claims will have a material adverse effect on its unaudited interim consolidated financial position and financial performance. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of strategies relating to these proceedings (see Note 32).

5. Cash and Cash Equivalents

This account consists of:

	2007	2006
Cash on hand and in banks	**₱349,814,961**	₱156,406,689
Short-term placements	**693,803,636**	340,645,294
	₱1,043,618,597	₱497,051,983

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term placement rates.

6. Trade and Other Receivables

This account consists of:

	2007	2006
Trade (see Note 20)	**₱3,133,779,425**	₱3,096,269,739
Others	**24,113,273**	68,422,392
	3,157,892,698	3,164,692,131
Less allowance for doubtful accounts	**71,109,623**	53,638,420
	₱3,086,783,075	₱3,111,053,711

Trade receivables are noninterest-bearing and are generally on a 60-day credit term.

As of March 31, 2007 and 2006, trade receivables at nominal value of ₱71.11 million and ₱53.64 million, respectively, were impaired and fully provided for. The movements in the allowance for doubtful accounts are as follows:

	March 31, 2007	March 31, 2006
Balance at beginning of period	**₱56,109,623**	₱52,141,000
Provisions for the period	**15,000,000**	1,497,420
	₱71,109,623	₱53,638,420

As of March 31, 2007 and 2006, the analysis of trade receivables that were not impaired follows:

	March 31, 2007	March 31, 2006
< 60 days	**₱2,456,384,770**	₱2,522,965,698
60 - 90 days	**43,069,768**	77,433,368
> 90 days	**563,215,264**	442,232,253
	₱3,062,669,802	₱3,042,631,319

Trade receivables that are neither past due nor impaired are assessed by the management of the Group as good and collectible.

7. Program Rights

The movements in program rights are as follows:

	March 31, 2007	March 31, 2006
Cost		
Balance at beginning of period	**₱1,033,922,538**	₱1,002,143,008
Additions	**107,263,738**	195,391,444
Program usage (see Note 22)	**(158,993,779)**	(135,453,240)
Balance at end of period	**982,192,497**	1,062,081,212
Accumulated Impairment Loss		
Balance at beginning of period	**2,862,565**	1,068,518
Additions	**—**	1,794,047
Balance at end of period	**2,862,565**	2,862,565
Net Book Value	**₱979,329,932**	₱1,059,218,647

8. Prepaid Expenses and Other Current Assets

This account consists of:

	2007	2006
Prepaid production costs	**₱120,251,487**	₱132,590,012
Materials and supplies inventory at cost	**86,024,708**	43,690,842
Prepaid expenses	**55,007,219**	31,213,445
Derivative assets (see Note 31)	**581,981**	5,861,823
Others	**37,541,254**	39,538,565
	₱299,406,649	₱252,894,687

Prepaid production costs represent costs related to unaired programs such as talent fees of artists and production staff and other costs directly attributable to production. These costs are charged to income upon airing of the related programs.

9. Available-for-Sale Financial Assets

This account consists of investments in quoted and unquoted shares of stock (see Note 31).

In 2007, AFS financial assets include net unrealized gain amounting to ₱0.91 million. This amount, net of deferred tax liabilities amounting to ₱0.32 million, is deferred under the stockholders' equity section of the unaudited interim consolidated balance sheet.

In 2006, AFS financial assets include unrealized loss amounting to ₱3.3 million. This amount, net of deferred tax assets amounting to ₱1.2 million, is deferred under the stockholders' equity section of the unaudited interim consolidated balance sheet.

10. Investments and Advances

This account consists of:

	2007	2006
Investments in shares of stocks accounted for under the equity method	**₱209,543,726**	₱4,683,620
Advances to associates and joint ventures	**155,406,761**	141,687,959
Advances to related parties (see Note 20)	**—**	224,961,869
	₱364,950,487	₱371,333,448

The movements in the above amounts follow:

	March 31, 2007	March 31, 2006
Investments in shares of stocks accounted for under the equity method		
Acquisition cost:		
Balance at beginning of period	**₱100,788,343**	₱68,253,749
Additional investments during the period	**168,000,000**	38,288,343
Balance at end of period	**268,788,343**	106,542,092
Accumulated equity in net losses:		
Balance at beginning of period	**(58,096,246)**	(102,466,117)
Equity in net earnings (losses) during the period	**(1,148,371)**	607,645
Balance at end of period	**(59,244,617)**	(101,858,472)
	209,543,726	4,683,620
Advances to associates and joint ventures:		
Balance at beginning of period	**96,019,370**	101,593,021
Additional advances during the period	**192,420**	360,000
Reclassifications during the period	**59,194,971**	83,742,338
Disposal during the period	**—**	(44,007,400)
Balance at end of period	**155,406,761**	141,687,959
Advances to related parties:		
Balance at beginning of period	**225,333,684**	347,364,365
Additional advances during the period	**1,861,287**	(371,815)
Conversion of advances into equity investments during the period	**(168,000,000)**	(38,288,343)
Reclassifications during the period	**(59,194,971)**	(83,742,338)
Balance at end of period	**—**	224,961,869
Total investments and advances	**₱364,950,487**	₱371,333,448

The ownership interests in associates and joint ventures accounted for under the equity method consist of the following as at March 31:

	Percentage of Ownership		Country of
	2007	2006	Incorporation
Associates:			
Real Estate -			
Mont-Aire Realty and Development Corporation (Mont-Aire)	**49.0**	49.0	Philippines
Advertising Business:			
RGMA Network, Inc. (RGMA)	**48.5**	—	- do -
Image One Multi-Media Corporation (Image One)*	**—**	49.5	- do -
Entertainment Business -			
Film Experts, Inc. (Filmex)	**—**	31.0	- do -
Joint ventures -			
Internet Publishing:			
INQ7 Interactive, Inc. (INQ7)	**50.0**	50.0	- do -
Philippine Entertainment Portal, Inc. (PEP)	**50.0**	—	- do -

* *Includes 15% indirect investment through Alta*

The carrying values of investments accounted for under the equity method and the related advances are as follows:

	2007		
	Investments	**Advances**	**Total**
Associates:			
RGMA	**₱167,628,790**	**₱59,194,971**	**₱226,823,761**
Mont-Aire	**38,378,777**	**84,667,790**	**123,046,567**
Joint ventures:			
PEP	**11,660,091**	**—**	**11,660,091**
INQ7	**(8,123,932)**	**11,544,000**	**3,420,068**
	₱209,543,726	**₱155,406,761**	**₱364,950,487**

	2006		
	Investments	Advances	Total
Associates:			
Mont-Aire	₱38,295,857	₱83,742,338	₱122,038,195
Image One	(47,610,173)	43,557,913	(4,052,260)
Filmex	10,970,125	2,483,708	13,453,833
Joint venture - INQ7	3,027,811	11,904,000	14,931,811
	₱4,683,620	₱141,687,959	₱146,371,579

On February 21, 2006, the BOD approved the conversion to equity of the advances made by the Parent Company to RGMA amounting to ₱168.00 million. The net effect of the conversion is for the Parent Company to hold or own approximately 48.5% interest in RGMA. As of March 31, 2006, advances to RGMA prior to conversion to equity investments amounted to ₱224.96 million. The conversion of the Parent Company's advances to RGMA to equity was approved by the Securities and Exchange Commission (SEC) on February 6, 2007.

In 2006, the Parent Company's investments in Image One and Filmex were declared as property dividends to the major shareholders of the Parent Company (see Note 18).

The Parent Company likewise converted its advances to Mont-Aire into equity investments in 2006. The SEC approved the conversion on February 17, 2006.

Following are the condensed financial information of the associates:

		Total Assets	Total Liabilities	Revenue	Net Income (Loss)
RGMA	2007	₱103,623,447	₱107,680,379	₱21,635,344	(₱3,685,371)
Mont-Aire	2007	160,458,706	94,725,063	383,241	128,058
	2006	159,609,338	94,033,735	384,799	46,003
Filmex	2006	123,663,733	95,260,226	42,826,129	243,722
Image One	2006	31,872,198	39,982,942	4,469,946	3,360,165

The aggregate amounts related to the Groups' 50% interest in INQ7 and PEP in 2007 and in INQ7 in 2006 follow:

	INQ7		PEP
	2007	2006	**2007**
Current assets	**₱17,206,563**	₱14,263,896	**₱12,560,944**
Noncurrent assets	**13,517,355**	3,914,075	**557,942**
Current liabilities	**27,255,790**	19,240,333	**3,144,566**
Noncurrent liabilities	**48,059**	477,697	**—**
Revenue	**—**	8,747,766	**—**
Expenses	**—**	10,935,624	**1,292,167**
Net loss	**—**	2,187,858	**839,909**

11. Property and Equipment at Cost

The details of property and equipment at cost are as follows:

	2007				
	January 1, 2007	**Additions**	**Disposals**	**Reclassifications**	**March 31, 2007**
Cost:					
Buildings, towers and improvements	**₱1,612,646,108**	**₱11,612,719**	**(₱2,965,887)**	**₱11,870,869**	**1,633,163,809**
Antenna and transmitter systems and broadcast equipment	**3,361,887,917**	**8,667,809**	**–**	**7,429,112**	**3,377,984,838**
Communication and mechanical equipment	**373,253,151**	**5,731,944**	**–**	**7,100,360**	**386,085,455**
Transportation equipment	**277,548,137**	**6,665,692**	**(2,193,030)**	**6,273,945**	**288,294,744**
Furniture, fixtures and equipment	**161,198,413**	**996,081**	**(89,574)**	**(8,185,433)**	**153,919,487**
	5,786,533,726	**33,674,245**	**(5,248,491)**	**24,488,853**	**5,839,448,333**
Accumulated depreciation and amortization:					
Buildings, towers and improvements	**572,006,134**	**22,277,994**	**(1,062,776)**	**–**	**593,221,352**
Antenna and transmitter systems and broadcast equipment	**2,496,981,361**	**53,073,456**	**–**	**(922,695)**	**2,549,132,122**
Communication and mechanical equipment	**244,309,618**	**10,241,923**	**–**	**19,099,616**	**273,651,157**
Transportation equipment	**141,802,621**	**15,186,576**	**(2,181,167)**	**–**	**154,808,030**
Furniture, fixtures and equipment	**108,799,822**	**2,754,178**	**(35,943)**	**(17,037,188)**	**94,480,869**
	3,563,899,556	**103,534,127**	**(3,279,886)**	**1,139,733**	**3,665,293,530**
Construction in progress and equipment for installation	**299,535,409**	**81,138,781**	**–**	**(26,263,150)**	**354,411,040**
Net book value	**₱2,522,169,579**	**₱11,278,899**	**(₱1,968,605)**	**(₱2,914,030)**	**₱2,528,565,843**

	2006				
	January 1, 2006	Additions	Disposals	Reclassifications	March 31, 2006
Cost:					
Buildings, towers and improvements	₱1,527,761,200	₱447,800	₱—	₱—	₱1,528,209,000
Antenna and transmitter systems and broadcast equipment	3,101,242,956	66,458,860	—	29,389,811	3,197,091,627
Communication and mechanical equipment	335,924,875	6,969,404	—	445,572	343,339,851
Transportation equipment	226,107,544	10,586,577	(230,000)	9,270,504	245,734,625
Furniture, fixtures and equipment	123,428,630	497,433	—	36,341	123,962,404
	5,314,465,205	84,960,074	(230,000)	39,142,228	5,438,337,507
Accumulated depreciation and amortization:					
Buildings, towers and improvements	497,496,801	18,877,922	—	(4,941,995)	511,432,728
Antenna and transmitter systems and broadcast equipment	2,277,443,627	53,213,710	—	16,265	2,330,673,602
Communication and mechanical equipment	218,433,615	10,254,871	—	(16,265)	228,672,221
Transportation equipment	101,284,351	13,231,674	(186,875)	—	114,329,150
Furniture, fixtures and equipment	73,620,849	3,659,705	—	—	77,280,554
	3,168,279,243	99,237,882	(186,875)	(4,941,995)	3,262,388,255
Construction in progress and equipment for installation	290,319,051	24,406,978	—	(48,746,155)	265,979,874
Net book value	₱2,436,505,013	₱10,129,170	(₱43,125)	(₱4,661,932)	₱2,441,929,126

No borrowing cost was capitalized in 2007 and 2006.

Depreciation and amortization charged to operations amounted to ₱103.53 million and ₱99.24 million for the three-month periods ended March 31, 2007 and 2006, respectively. These amounts include amortization of capitalized borrowing costs amounting to ₱2.52 million for the three-month periods ended March 31, 2007 and 2006, and amortization of capitalized customs duties and taxes amounting to ₱0.16 million for the three months period ended March 31, 2006.

12. Land at Revalued Amounts

This account consists of:

	March 31, 2007	March 31, 2006
Cost		
Balance at beginning of period	**₽323,869,436**	₽316,789,136
Additions during the period	**—**	—
Balance at end of the period	**323,869,436**	316,789,136
Revaluation Increment		
Balance at beginning of period	**1,048,014,928**	1,048,014,928
Additions during the period	**—**	—
Balance at end of the period	**1,048,014,928**	1,048,014,928
	₽1,371,884,364	₽1,364,804,064

As mentioned in Note 3, the Parent Company's land used in operations were appraised by an independent firm of appraisers on May 18, 2004 and October 18, 2004.

While the appraised values of the land were not determined as of March 31, 2007 and 2006, the Parent Company's management believes that there were no conditions present in 2007 and 2006 that would significantly reduce the appraised values of the land from that determined in 2004.

13. Investment Properties

The movements in investment properties follow:

	2007		
	Land and Improvements	**Buildings and Improvements**	**Total**
Cost			
Balance at January 1, 2007	**₽41,426,199**	**₽31,765,721**	**₽73,191,920**
Additions for the period	**—**	**—**	**—**
Balance at March 31, 2007	**41,426,199**	**31,765,721**	**73,191,920**
Accumulated Depreciation			
Balance at January 1, 2007	**—**	**18,439,225**	**18,439,225**
Additions for the period	**—**	**356,731**	**356,731**
Balance at March 31, 2007	**—**	**18,795,956**	**18,795,956**
Accumulated Impairment in Value			
Balance at January 1, 2007	**—**	**11,388,930**	**11,388,930**
Additions for the period	**—**	**—**	**—**
Balance at March 31, 2007	**—**	**11,388,930**	**11,388,930**
Net Book Value	**₽41,426,199**	**₽1,580,835**	**₽43,007,034**

	2006		
	Land and Improvements	Buildings and Improvements	Total
Cost			
Balance at January 1, 2006	₱41,426,199	₱63,322,238	₱104,748,437
Additions for the period	—	—	—
Balance at March 31, 2006	41,426,199	63,322,238	104,748,437
Accumulated Depreciation			
Balance at January 1, 2006	—	25,200,075	25,200,075
Additions for the period	—	780,648	780,648
Balance at March 31, 2006	—	25,980,723	25,980,723
Accumulated Impairment in Value			
Balance at January 1, 2006	—	11,388,930	11,388,930
Additions for the period	—	—	—
Balance at March 31, 2006	—	11,388,930	11,388,930
Net Book Value	₱41,426,199	₱25,952,585	₱67,378,784

The fair value of certain investment properties with carrying values of ₱65.33 million as of December 31, 2005 amounted to ₱124.45 million, which was determined based on valuations performed by independent appraisers in November 2005.

While fair values of the investment properties were not determined as of March 31, 2007, the Group's management believes that there were no conditions present in 2007 that would significantly reduce the fair values of the investment properties from that determined in 2005.

The Parent Company also owns several vacant lots in various remote areas in the Philippines with an aggregate area of 5,028 square meters and a carrying value of ₱5.00 million. There were no available fair values for these properties. Consequently, the lots are carried at acquisition costs. Management, however, believes that there has not been a significant reduction in the fair values of these lots.

Certain investment properties totaling to ₱33.91 million were declared as property dividends on June 13, 2006 (see Note 18).

14. Other Noncurrent Assets

This account consists of:

	2007	2006
Tax credits	**₱76,769,606**	₱74,969,480
Guarantee and other deposits (see Note 31)	**30,411,510**	21,706,012
Software costs - net	**18,443,990**	12,730,751
Investment in artworks	**10,406,257**	10,406,257
Others	**31,031,579**	7,448,281
	₱167,062,942	₱127,260,781

Tax credits represent claims of the Parent Company from the government arising from airing of government commercials and advertisements.

The movements in software costs follow:

	March 31,2007	March 31, 2006
Cost:		
Balance at beginning of period	**₱67,140,982**	₱52,178,850
Additions	**918,487**	250,662
Balance at end of period	**68,059,469**	52,429,512
Accumulated amortization:		
Balance at beginning of period	**47,178,407**	37,454,253
Additions (see Note 23)	**2,437,072**	2,244,508
Balance at end of period	**49,615,479**	39,698,761
Net book value	**₱18,443,990**	₱12,730,751

15. Notes Payable

This account primarily consists of unsecured peso-denominated short-term borrowings obtained from various financial institutions, with fixed interest rates ranging from 5.80% to 6.25% in 2007 and 6.25% to 7.00% in 2006.

16. Trade Payables and Other Current Liabilities

This account consists of:

	2007	2006
Trade (see Note 20)	**₱227,928,929**	₱276,845,338
Dividends (see Note 18)	**1,400,034,984**	—
Deferred output tax	**407,060,928**	351,310,349
Accrued expenses	**327,862,303**	413,832,159
Accrued sick and vacation leaves	**140,631,777**	123,040,648
Payable to government agencies	**103,431,345**	93,996,916
Customers' deposits	**43,909,260**	30,919,521
Others (see Note 20)	**19,929,204**	9,814,019
	₱2,670,788,730	₱1,299,758,950

Trade payables are noninterest-bearing and are normally settled on terms ranging from 7 days to 30 days.

17. Obligations for Program Rights

This account represents liabilities to foreign and local film suppliers for program rights purchased by the Group. The liabilities are noninterest-bearing and are generally payable in equal monthly or quarterly installments over a period of one to two years. The amounts presented as of March 31, 2007 and 2006 represent the face amounts of the obligations net of the unamortized difference between the face amounts and the fair values of the obligations upon initial recognition (the "unamortized discounts"). Unamortized discounts as of March 31, 2007 and 2006 amounted to ₱2.42 million and ₱2.76 million, respectively.

18. Stockholders' Equity

a. Capital Stock

The composition of capital stock as of March 31, 2007 and 2006 follows:

	Number of Preferred Shares		Number of Common Shares	
	2007	2006	**2007**	2006
Authorized - ₱0.20 par value per preferred share / ₱1.00 par value per common share	**7,500,000,000**	7,500,000,000	**3,500,000,000**	3,500,000,000
Issued	**7,500,000,000**	7,500,000,000	**2,750,000,000**	2,750,000,000

The preferred shares are of equal rank, preference and priority and are identical in all respect regardless of series. Preferred shares are participating at the rate of one fifth (1/5th) of the dividend paid to common shares, which rate is adjusted proportionately by the Parent Company's BOD consequent to any stock split or stock dividend declaration affecting the common shares and preferred shares. Preferred shares are convertible at the option of the shareholders at the rate of five (5) preferred shares to one (1) common share, based on par value, subject to the approval of the BOD.

Preferred shares enjoy priority over common shares in the distribution of assets of the Group in the event of its dissolution and liquidation, at such rates, terms and conditions as the BOD may determine. Each preferred share is entitled to one vote and shall have the same voting rights as the common shares.

The Parent Company's BOD may specify other terms and conditions, qualifications, restrictions and privileges of the preferred shares or series/classes thereof, insofar as such terms, conditions, qualifications, restrictions and privileges are not inconsistent with the articles of incorporation and any applicable law or regulation.

On April 26, 2007, the BOD approved the increase in the Parent Company's authorized capital stock from ₱5,000 million to ₱6,500 million, divided into 5,000 million common shares with par value of ₱1.00 each and 7,500 million preferred shares with par value of ₱0.20 each. On the same date, the BOD approved the declaration of stock dividends amounting to ₱375 million representing 375 million common shares to all stockholders of record as of April 25, 2007. The stock dividends will be taken from the increase in authorized capital stock. The increase in the Parent Company's authorized capital stock was approved by the SEC on May 10, 2007.

b. Retained Earnings

The retained earnings available for dividend declaration amounted to ₱880.90 million and ₱1,478.42 million as of March 31, 2007 and 2006, respectively.

On March 19, 2007, the BOD approved the Parent Company's declaration and distribution of cash dividend of ₱0.35 a share amounting to ₱1,500 million to all stockholders of record as of declaration date.

On February 17, 2006, the SEC approved the application of the Parent Company to increase its authorized capital stock from ₱2,000 million to ₱5,000 million, divided into 3,500 million common shares with par value of ₱1.00 each and 7,500 million preferred shares with par value of ₱0.20 each. The increase in authorized capital stock of ₱3,000 million, consisting of 1,500 million common shares and 7,500 million preferred shares, was subscribed by the Parent Company's stockholders by means of stock dividends.

On June 13, 2006, the BOD approved the Parent Company's declaration and distribution of property dividends totaling ₱60.46 million to the major stockholders of record as of the same date. The property dividends consist of investments in shares of stock of Image One and Filmex and certain investment properties.

On June 13, 2006, the BOD approved the Parent Company's declaration and distribution of cash dividend of ₱0.46 a share amounting to ₱1,089.54 million to all stockholders of record as of declaration date.

On February 17, 2005, the BOD approved the Parent Company's declaration and distribution of property dividends to all stockholders of record as of the same date, consisting on investments in shares of stock of Image One amounting to ₱44.01 million. The investments in shares of stock of Image One, which were the subject of property dividend declaration, were only issued in 2006 when the SEC approved Images One's application for increase in authorized capital stock on March 7, 2006.

19. Parent Company Dividends

Cash dividends declared per share amounted to ₱0.35 in 2007.

20. Related Party Disclosures

Transactions with related parties are as follows:

Related Party	Nature of Transaction	Year	Transactions During the Year	Due from Related Parties/ Advances	Due to Related Parties	Trade Receivables (Trade Payables)
INQ7, GMA Kapuso Foundation, Inc. (GMA Foundation) and Alta Tierra Resources, Inc. (Alta Tierra)	Grant of noninterest-bearing advances	2007	₱360,000	₱11,544,000	₱—	₱2,631,963
		2006	360,000	11,904,000	—	1,191,963
RGMA	Advances for working capital requirements, net of marketing commission expense	2007	1,861,287	59,194,971	—	(32,400,729)
		2006	(371,815)	224,961,869	—	(25,595,537)
Mont-Aire	Debt to equity conversion, grant of noninterest-bearing advances	2007	192,241	84,667,790	—	—
		2006	—	83,742,338	—	—
Image One	Collection remittance	2007	—	—	—	(12,057,873)
		2006	—	43,557,913	—	(22,270,800)
Filmex	Advances for working capital requirements	2007	—	—	—	63,075
		2006	—	2,483,708	—	3,889,374
Belo, Gozon, Elma Law (BGE Law), FLG Management and Development Corporation (FLG), San Mateo Management Corporation (San Mateo) and Majent Management and Development Corporation (Majent)	Legal and retainers' fees and others	2007	4,560,555	—	5,872,111	(487,200)
		2006	2,916,329	—	5,872,111	—

GMA Foundation and Alta Tierra
The Parent Company and Alta Tierra have certain common stockholders. Some of the trustees of GMA Foundation are also the stockholders of the Parent Company.

Mont-Aire
In 2006, Mont-Aire became an associate of the Parent Company. In previous years, the Parent Company and Mont-Aire have certain common stockholders. The advances made by the Parent Company to Mont-Aire in previous years were intended for future capital subscription.

RGMA
In 2007, RGMA became an associate of the Parent Company. In previous years, the Parent Company and RGMA have certain common stockholders. The advances made by the Parent Company to RGMA in previous years were intended for future capital subscription.

Image One
In 2006, the Parent Company's investments in Image One were declared as property dividends to the major stockholders of the Parent Company.

GMPI has an existing agreement with Image One whereby GMPI shall be the sole and exclusive contractor for the marketing and sale of advertising spots of Image One's electronic outdoor and indoor billboards. In consideration for the said services, GMPI receives from Image One a marketing fee based on a certain percentage of Image One's annual collection.

BGE Law
BGE Law is the legal counsel of the Group. The Parent Company's Chairman of the Board is a principal partner of BGE Law.

FLG, San Mateo, Majent
These companies are owned or partly owned by some officers of the Parent Company and GMPI. GMPI employs the services of these related parties in sourcing and hiring competent and capable personnel and in conducting studies to improve GMPI's capability in providing efficient services to clients.

The compensation of key management personnel of the Group, by benefit type, follows:

	2007	2006
Salaries and other short-term benefits	**₱32,918,206**	₱30,967,815
Pension benefits	**6,761,111**	4,678,103
	₱39,679,317	₱35,645,918

21. Revenue

This account consists of:

	2007	2006
Television and radio airtime	**2,395,600,473**	₱2,229,387,767
Production and others	**158,959,083**	123,807,529
	₱2,554,559,556	₱2,353,195,296

22. Production Cost

This account consists of:

	2007	2006
Talent fees	**₱447,374,764**	₱441,346,748
Program rights usage (see Note 7)	**158,993,779**	135,453,240
Rental and outside services	**123,140,105**	122,731,443
Tapes, sets and productions supplies	**78,594,028**	81,352,293
Transportation and communication	**25,267,600**	22,233,177
Facilities and others	**52,603,582**	57,220,192
	₱885,973,858	₱860,337,093

23. General and Administrative Expenses

This account consists of:

	2007	2006
Personnel costs (see Note 24)	**₱222,480,610**	₱198,754,562
Depreciation and amortization (see Notes 11 and 13)	**103,890,858**	100,018,530
Communication, light and water	**46,967,323**	48,875,021
Advertising	**44,146,482**	33,745,695
Taxes and licenses	**26,976,393**	22,324,358
Repairs and maintenance	**26,312,780**	32,461,600
Professional fees (see Note 20)	**20,086,107**	25,027,756
Rental	**17,352,799**	16,312,023
Provision for doubtful accounts	**15,000,000**	1,497,420
Transportation and travel	**14,318,916**	11,672,794
Sales incentives	**12,034,661**	15,075,297
Dues and subscriptions	**6,564,204**	10,010,338
Materials and supplies	**5,760,955**	5,542,390
Insurance	**3,545,285**	3,068,248
Entertainment, amusement and recreation	**3,401,902**	2,167,425
Amortization of software costs (see Note 14)	**2,437,072**	2,244,508
Others	**24,315,721**	46,563,939
	₱595,592,068	₱575,361,904

24. Personnel Costs

This account consists of:

	2007	2006
Salaries and wages	**₱148,336,771**	₱141,238,431
Net pension expense (see Note 25)	**25,541,299**	16,907,425
Employee benefits and allowances	**23,887,070**	20,584,567
Sick and vacation leaves expense	**24,715,470**	20,024,139
	₱222,480,610	₱198,754,562

25. Pension Benefits

The following tables summarize the components of net pension expense recognized in the unaudited interim consolidated statements of income and the funded status and amounts recognized in the unaudited interim consolidated balance sheets for the Group's plan:

Net pension expense consists of:

	2007	2006
Current service cost	**₱8,480,758**	₱6,280,427
Interest cost	**13,904,829**	10,071,950
Actuarial losses recognized	**3,196,620**	581,856
Expected return on plan assets	**(40,908)**	(26,808)
	₱25,541,299	₱16,907,425

The details of net pension liability are as follows:

	2007	2006
Fair value of the plan assets	**₱1,528,465**	₱1,367,186
Present value of defined benefit obligation	**(690,599,557)**	(349,322,570)
	(689,071,092)	(347,955,384)
Unrecognized actuarial losses	**381,211,625**	94,854,123
Net pension liability	**(₱307,859,467)**	(₱253,101,261)

The changes in the fair value of plan assets are as follows:

	2007	2006
Balance at beginning of period	**₱1,487,557**	₱1,340,378
Contribution during the period	**4,155,062**	2,761,464
Benefits paid	**(4,155,062)**	(2,761,464)
Expected return in plan assets	**40,908**	26,808
Balance at end of period	**₱1,528,465**	₱1,367,186
Actual return on plan assets	**₱40,908**	₱26,808

The changes in the present value of the defined benefit obligations are as follows:

	2007	2006
Balance at beginning of period	**₱672,369,032**	₱335,731,657
Interest cost	**13,904,829**	10,071,950
Current service cost	**8,480,758**	6,280,427
Benefits paid	**(4,155,062)**	(2,761,464)
Balance at end of period	**₱690,599,557**	₱349,322,570

The Group expects to contribute ₱12.17 million to its defined benefit pension plans in 2007.

The principal assumptions used in determining pension benefits obligation for the Group's plans are shown below:

	January 1, 2007	January 1, 2006
Discount rate	**8%**	12%
Expected rate of return on plan assets	**11%**	8%
Expected rate of salary increase	**7%**	6%

The discount rate, expected rate of return on plan assets and expected rate of salary increase prevailing as of March 31, 2007 are 8%, 11% and 7%, respectively.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

The amounts for the current and previous years are as follows:

	2007	2006
Defined benefit obligation	**₽690,599,557**	₽349,322,570
Plan assets	**1,528,465**	1,367,186
Deficit	**689,071,092**	347,955,384
Experience adjustments on plan liabilities	**15,399,575**	—
Experience adjustments on plan assets	**—**	—

26. Other Income

This account consists of the following income (expenses):

	2007	2006
Marked-to-market gain (loss) on derivatives (see Note 31)	**(₽3,177,794)**	₽1,139,563
Foreign exchange gain - net	**1,952,063**	16,608,860
Loss on sale of property and equipment - net	**(1,836,518)**	—
Commissions from GMA Artists' Center	**824,059**	3,305,416
Rental (see Note 27)	**222,824**	172,578
Dividends	**3,150**	4,450
Provision for impairment of program rights	**—**	(1,794,047)
Others	**3,229,011**	6,815,342
	₽1,216,795	₽26,252,162

27. Lease Agreements

The Group entered into various lease agreements for the land, building and studio spaces that it presently occupies for periods ranging from three to twenty five years. The leases are cancelable at the Group's option.

Total rental expense for the three-month periods ended March 31, 2007 and 2006 amounted to ₽140.49 million and ₽139.04 million, respectively (see Notes 22 and 23).

The Group also leases out certain properties. Total rental income for the three-month periods ended March 31, 2007 and 2006 amounted to ₽0.22 million and ₽0.17 million, respectively (see Note 26).

The Parent Company entered into a non-cancelable lease which will expire in 2012. The lease is subject to 10% annual escalation rate of the current rental fees commencing on the third year.

The future minimum rentals payable under the non-cancelable operating lease follow:

	2007	2006
	(In Millions)	
Within one year	**₱82.78**	₱77.00
After one year but not more than five years	**422.57**	384.16
After five years	**31.00**	152.19
	₱536.35	₱613.35

28. Income Taxes

The components of the Parent Company's net deferred tax liabilities are as follows:

	2007	2006
Deferred tax assets:		
Net pension liability	**₱94,180,652**	₱78,389,046
Accrued sick and vacation leaves	**44,348,815**	38,030,107
Allowance for doubtful accounts	**24,503,648**	18,549,097
Accrued rent	**9,618,898**	4,246,135
Unamortized past service costs	**2,411,053**	3,083,088
Discounting of long-term obligation for program rights	**1,158,769**	1,278,208
Unrealized foreign exchange loss	**881,142**	—
Others	**331,955**	1,250,289
	177,434,932	144,825,970
Deferred tax liabilities:		
Revaluation increment in land	**(₱314,404,478)**	(₱314,404,478)
Unamortized capitalized borrowing costs	**(42,450,007)**	(45,977,011)
Bifurcation of third currency purchase orders	**(583,507)**	(733,562)
Discounting of program rights	**(417,166)**	(738,734)
Bifurcation of lease contracts	**(318,478)**	(1,857,946)
Unrealized foreign exchange gain	**—**	(2,818,662)
Unamortized capitalized customs duties and taxes	**—**	(163,289)
Others	**(130,462)**	—
	(358,304,098)	(366,693,682)
	(₱180,869,166)	(₱221,867,712)

The components of the net deferred tax assets of the subsidiaries are as follows:

	2007	2006
Deferred tax assets:		
Net pension liability	**₽13,242,802**	₽10,019,925
Accrued sick and vacation leaves	**4,909,574**	5,419,235
Allowance for impairment loss	**1,893,812**	1,893,812
NOLCO	**1,523,609**	1,049,011
MCIT	**565,503**	322,145
Allowance for doubtful accounts	**384,720**	224,350
Unrealized foreign exchange loss	**73,755**	91,450
	22,593,775	19,019,928
Deferred tax liabilities:		
Unrealized gain on AFS financial assets	**(189,000)**	(105,000)
Deferred rental income	**(58,985)**	(27,292)
	(247,985)	(132,292)
	₽22,345,790	₽18,887,636

The reconciliation between the statutory income tax rates and effective income tax rates on income before income tax is shown below:

	2007	2006
Statutory income tax rates	**35.00%**	35.00%
Additions (deductions) in income tax rates resulting from:		
Interest income already subjected to final tax	**(0.65)**	(0.20)
Equity in net losses of associates and joint venture	**0.06**	(0.04)
Impairment losses on investments and program rights	**—**	(0.06)
Effect of change in tax rates	**0.18**	0.64
Others - net	**0.34**	0.11
Effective income tax rates	**34.93%**	35.45%

29. EPS Computation

The computation of basic EPS follows:

	2007	2006
Net income (a)	**₽440,735,582**	₽350,759,205
Less attributable to preferred shareholders	**155,553,735**	53,962,955
Net income attributable to common shareholders (b)	**₽285,181,847**	₽296,796,250
Weighted average number of common shares for basic EPS (c)	**2,750,000,000**	2,750,000,000
Basic EPS (b/c)	**₽0.10**	₽0.11

The computation of diluted EPS in 2006 follows:

Net income (a)	**₱440,735,582**	₱350,759,205
Weighted average number of common shares	**2,750,000,000**	2,750,000,000
Effect of dilution - assumed conversion of preferred shares	**1,500,000,000**	500,000,000
Weighted average number of common shares adjusted for the effect of dilution (d)	**4,250,000,000**	3,250,000,000
Diluted EPS (a/d)	**₱0.10**	₱0.11

As mentioned in Note 18, the SEC approved the increase in the Parent Company's authorized capital stock from ₱2,000 million to ₱5,000 million on February 17, 2006.

On May 10, 2007, the SEC likewise approved the increase in the Parent Company's authorized capital stock from ₱5,000 million to ₱6,500 million.

30. Financial Risk Management Objectives and Policies

Financial Risk Management Objectives and Policies
The Group's principal financial instruments include nonderivative instruments such as cash and cash equivalents, short-term investments, guarantee and other deposits, short-term loans and obligations for program rights. The main purpose of these financial instruments includes raising financing for the Group's operations and managing identified financial risks. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the use of financial instruments are liquidity risk, foreign exchange risk, interest rate risk and credit risk.

The BOD reviews and approves the Group's objectives and policies.

Liquidity Risk. The Group is exposed to the possibility that adverse changes in the business environment and/or its operations would result to substantially higher working capital requirements and the subsequent difficulty in financing additional working capital.

The Group manages liquidity risk by maintaining a pool of credit lines from financial institutions that exceeds expected financing requirements for working capital. The Group likewise regularly evaluates other financing instruments and arrangements to broaden the Group's range of financing sources.

The table below summarizes the maturity profile of the Group's financial liabilities as of March 31, 2007 based on contractual undiscounted payments:

	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
			(In Millions)			
Notes payable	₱10.70	₱308.80	₱—	₱—	₱—	₱319.5
Trade payables and other current liabilities	133.45	343.60	2,031.76	23.49	138.49	2,670.79
Obligations for program rights	9.56	19.64	101.89	—	—	131.09
	₱153.71	₱672.04	₱2,133.65	₱23.49	₱138.49	₱3,121.38

Foreign Exchange Risk. The Group's exposure to foreign exchange risk results from its business transactions denominated in foreign currencies. It is the Group's policy to ensure that capabilities exist for active but conservative management of its foreign exchange risk.

The Group's foreign currency-denominated monetary assets and liabilities amounted to ₱178.21 million (US$3.70 million) and ₱159.53 million (US$3.30 million), respectively, as of March 31, 2007 and ₱62.30 million (US$1.22 million) and ₱324.93 million (US$6.36 million), respectively, as of March 31, 2006.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱48.28 to US$1.00 and ₱51.13 to US$1.00, the Philippine peso to US dollar exchange rates as of March 31, 2007 and 2006, respectively.

The following table demonstrates the sensitivity to a reasonable change in the US$ exchange rate, with all other variables held constant, of the Group's income before tax (due to changes in the fair value of financial assets and liabilities):

Increase/Decrease in Peso to US Dollar Rate	Effect on Income Before Tax
	(In Millions)
+ ₱2.28	(₱0.88)
- 2.28	0.88

Interest Rate Risk. The Group's exposure to changes in interest rates is minimal as the Group has no long-term obligations. The Group's profit before tax is not sensitive to interest rate changes since its obligations are at fixed interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

Credit Risk. Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of products are made to customers with appropriate credit history. The Group has an internal mechanism to monitor the granting of credit and management of credit exposures. The Group has made provisions, where necessary, for potential losses on credits extended.

The Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of cash and cash equivalents, short-term investments, trade and other receivables and AFS financial assets.

The Group's credit risk is concentrated among five major advertisers, which include top corporations, covering 34% of the total trade receivables as of March 31, 2007. The Group does not expect any of these major advertisers to default in its obligations, given their high credit ratings.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group monitors its capital gearing by measuring the ratio of debt to total equity. Interest-bearing debt includes all short-term and long-term debt.

As of March 31, 2007 and 2006, the Group's ratio of debt to total equity is as follows:

Debt to Total Equity

	2007	2006
Total interest-bearing debt (a) - Notes payable	**₱310,700,000**	₱227,100,000
Total equity attributable to equity holders of the Parent (b)	**₱5,865,099,351**	₱6,459,903,701
Debt to equity (a/b)	**5.30%**	3.52%

31. Financial Assets and Liabilities

The table below presents a comparison by category of carrying amounts and fair values of all of the Group's financial instruments as of March 31, 2007 and 2006:

	2007		2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱1,043,618,597**	**₱1,043,618,597**	₱497,051,983	₱497,051,983
Short-term investments	**220,652,402**	**220,652,402**	4,340,392	4,340,392
Trade and other receivables - net	**3,086,783,075**	**3,086,783,075**	3,111,053,711	3,111,053,711
Derivative assets (included under "Prepaid expenses and other current assets" account in the unaudited interim consolidated balance sheets)	**581,981**	**581,981**	5,861,823	5,861,823
AFS financial assets	**₱100,368,887**	**₱100,368,887**	₱120,189,675	₱120,189,675
Guarantee and other deposits (included under "Other noncurrent assets" account in the unaudited interim consolidated balance sheets)	**9,270,104**	**9,264,206**	3,388,295	3,382,397
Financial Liabilities				
Notes payable	**310,700,000**	**307,852,830**	227,100,000	225,201,887
Trade payables and other current liabilities	**2,670,788,730**	**2,670,788,730**	1,299,758,950	1,299,758,950
Obligations for program rights	**131,090,578**	**131,090,578**	306,672,140	306,672,140

Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments and Trade and Other Receivables. The carrying amounts of cash and cash equivalents, short-term investments and trade and other receivables approximate fair values primarily due to the relatively short-term maturity of these financial instruments.

AFS Financial Assets. These are investments in quoted and unquoted shares of stock. The fair value of quoted shares is based on quoted market prices. In the absence of a reliable basis in determining fair values of unquoted shares, the investments are carried at cost, net of impairment in value.

Guarantee and Other Deposits. The fair value of guarantee and other deposits is based on the present value of the future discounted cash flows. Discount rates used range from 5.11% to 5.52%.

Notes Payable. The carrying value of notes payable that re-priced every 3 months approximates fair value because of the recent and regular repricing based on current market rates. For fixed rate notes payable, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing rate from the period up to the next repricing date. Discount rates used range from 5.11% to 5.52%.

Trade Payables and Other Current Liabilities. The carrying amount of trade payables and other current liabilities approximates fair value due to the relatively short-term maturity of these financial instruments.

Obligations for Program Rights. The carrying value of obligations for program rights approximates fair value due to the relatively short-term maturity of these instruments.

Derivatives. The fair values of bifurcated embedded currency forwards are calculated by reference to current forward exchange rates for contracts with similar maturity profile.

Embedded Derivatives

Embedded foreign currency derivatives were bifurcated from the Parent Company's lease and purchase contracts, which are denominated in a currency that is neither the functional currency of a substantial party to the contract nor the routine currency for the transaction. As of March 31, 2007, the total outstanding notional amount of such embedded foreign currency derivatives amounted to US$1.92 million. The net movements in fair value changes of these embedded derivatives are as follows:

	2007	2006
Balance at beginning of period	**₱3,759,775**	₱4,722,260
Net changes in fair value during the period	**(3,177,794)**	1,139,563
Balance at end of period	**₱581,981**	₱5,861,823

The net changes in fair value during the period are included under "Other income" account in the unaudited interim consolidated statements of income.

In 2007, the net marked-to-market gain on the outstanding embedded derivatives amounted to ₱0.58 million, included under "Prepaid expenses and other current assets" account in the unaudited interim consolidated balance sheets.

In 2006, the net marked-to-market gain on the outstanding embedded derivatives amounted to ₱5.86 million, included under "Prepaid expenses and other current assets" account in the unaudited interim consolidated balance sheets.

32. Other Matters

a. A complaint for illegal dismissal and damages has been filed by a former corporate officer against the Parent Company, GMPI and the Chairman and Chief Executive Officer of GMPI. On July 14, 2003, the National Labor Relations Commission (NLRC) issued a decision in favor of the Parent Company dismissing said complaint. Plaintiff filed a Petition for Certiorari with the Court of Appeals (Court) which as of June 2, 2007 has not yet been decided by the Court. However, on the basis of the information provided by the Parent Company's legal counsel, management believes that the Court will most likely affirm the decision of the NLRC.

b. The Parent Company is a defendant in legal cases for copyright infringement, injunctions and damages which are still pending resolution in the Regional Trial Court (RTC). As of June 2, 2007, no resolution has been issued by RTC. Also, complaints for recovery of retirement and other benefits and illegal dismissal of employees have been filed against the Parent Company. The Parent Company's management and legal counsel believe that the outcome of these cases will not have a material adverse effect on the unaudited interim consolidated financial statements.

c. Republic Act No. 9337 was enacted into law effective November 1, 2005 amending various provisions of the 1997 National Internal Revenue Code. Among the reforms introduced are as follows:

   i. Increase in the corporate income tax rate from 32% to 35%, with reduction thereof to 30% beginning January 1, 2009;

   ii. Increased the 10% VAT rate to 12%, effective February 1, 2006;

   iii. Revised invoicing and reporting requirements for VAT;

   iv. Expanded scope of transactions subject to VAT; and

   v. Provided thresholds and limitation on the amount of VAT credits that can be claimed.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
GMA Holdings, Inc.

We have audited the accompanying financial statements of GMA Holdings, Inc., which comprise the balance sheet as at December 31, 2006, and the related statement of income, statement of changes in stockholders' equity and statement of cash flows for the period February 15, 2006 to December 31, 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of GMA Holdings, Inc. as of December 31, 2006, and its financial performance and its cash flows for the period February 15, 2006 to December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0267366, January 2, 2007, Makati City

March 15, 2007

GMA HOLDINGS, INC.

BALANCE SHEET
DECEMBER 31, 2006

ASSETS	
Current Asset	
Cash (Notes 5 and 6)	₱100,679
LIABILITY AND STOCKHOLDERS' EQUITY	
Current Liability	
Accrued audit fee	₱25,000
Stockholders' Equity	
Capital stock	100,000
Net loss	(24,321)
Total Stockholders' Equity	75,679
	₱100,679

See accompanying Notes to Financial Statements.

GMA HOLDINGS, INC.

STATEMENT OF INCOME
FOR THE PERIOD FEBRUARY 15, 2006 TO DECEMBER 31, 2006*

INTEREST INCOME	₽849
AUDIT FEE	(25,000)
LOSS BEFORE INCOME TAX	(24,151)
FINAL TAX ON INTEREST INCOME	(170)
NET LOSS	(₽24,321)

* The Company was incorporated on February 15, 2006 and has not yet started operations as of December 31, 2006.

See accompanying Notes to Financial Statements.

GMA HOLDINGS, INC.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD FEBRUARY 15, 2006 TO DECEMBER 31, 2006*

CAPITAL STOCK - ₽10 par value	
Authorized and subscribed - 10,000 shares	₽100,000
NET LOSS	(24,321)
	₽75,679

* The Company was incorporated on February 15, 2006 and has not yet started operations as of December 31, 2006.

See accompanying Notes to Financial Statements.

GMA HOLDINGS, INC.

STATEMENT OF CASH FLOWS
FOR THE PERIOD FEBRUARY 15, 2006 TO DECEMBER 31, 2006*

CASH FLOWS FROM PREOPERATING ACTIVITIES	
Loss before income tax	(₽24,151)
Adjustments for:	
Interest income	(849)
Interest received	849
Preoperating loss before working capital changes	(24,151)
Accrued audit fee	25,000
Net cash generated from preoperations	849
Final tax paid on interest income	(170)
Net cash provided by preoperating activities	679
CASH FLOWS FROM FINANCING ACTIVITY	
Proceeds from subscriptions to capital stock	100,000
CASH AT END OF PERIOD	₽100,679

* The Company was incorporated on February 15, 2006 and has not yet started operations as of December 31, 2006.

See accompanying Notes to Financial Statements.

1. Corporate Information

GMA Holdings, Inc. (the Company) was incorporated in the Philippines on February 15, 2006 to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose real and personal property of every kind and description.

The Company has not started operations as of December 31, 2006.

The registered office address of the Company is Unit 5D Tower One, One McKinley Place, New Bonifacio Global City, Fort Bonifacio, Taguig City.

The financial statements of the Company as of December 31, 2006 and for the period February 15, 2006 to December 31, 2006 were authorized for issue by the Board of Directors on March 15, 2007.

2. Basis of Preparation

The financial statements of the Company have been prepared using the historical cost basis. The financial statements are presented in Philippine peso, which is the Company's functional and reporting currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Financial Reporting Standards Council.

Future Changes in Accounting Policies

The Company did not early adopt the following standards and interpretations that have been approved but are not yet effective:

- PAS 1, *Amendment to Presentation of Financial Statements*, requires the Company to make additional disclosures to enable the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The additional disclosures provided by the standard will be included in the financial statements when the amendment to the accounting standard is adopted in 2007.

- PFRS 7, *Financial Instruments: Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The Company will adopt PFRS 7 beginning January 1, 2007.

- PFRS 8, *Operating Segments*, will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheets and statements of income and companies will need to provide explanations and reconciliations of the differences. The Company does not expect the standard to have any impact on the financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*, becomes effective for financial years beginning on or after May 1, 2006. This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Company will adopt Philippine Interpretation IFRIC 8 starting January 1, 2007. The Company does not expect the interpretation to have a significant impact on the financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Company will adopt Philippine Interpretation IFRIC 9 starting January 1, 2007. The Company expects that the adoption of this interpretation will have no impact on the financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, becomes effective for financial years beginning on or after November 1, 2006. It provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and available-for-sale (AFS) investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. The Company will adopt Philippine Interpretation IFRIC 10 starting January 1, 2007. This interpretation is not expected to have a significant impact on the financial statements.

- Philippine Interpretation IFRIC 11, IFRS 2 — *Group and Treasury Share Transactions*, will be effective on March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have any impact on the financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the Company's financial statements as this is not relevant to its current operations.

3. Summary of Significant Accounting and Financial Reporting Policies

Cash

Cash pertains to cash in bank which earns interest at the respective bank deposit rates.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Interest Income

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Taxes

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to the items recognized directly in equity is recognized in equity and not in the statement of income.

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

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

<u>Contingencies</u>
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

<u>Events After the Balance Sheet Date</u>
Post-year end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the financial statements. Post-year end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Significant Accounting Estimates and Assumptions

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes.

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Estimating Realizability of Deferred Tax Assets
The Company's assessment on the recognition of deferred tax assets on nondeductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Company's future expectations on revenue and expenses. The Company has no recognized deferred tax asset as of December 31, 2006.

Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Unrecognized deferred tax asset amounted to ₱8,750 as of December 31, 2006 (see Note 7).

5. Financial Risk Management Objectives and Policies

The Company's financial instrument pertains to cash. The main purpose of the financial instrument is to finance the Company's operations. The main risk arising from the use of financial instrument is liquidity risk.

Liquidity Risk
The Company's objectives to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

6. Financial Instrument

The carrying amount of cash as of December 31, 2006 approximates fair value due to its relatively short-term maturity.

7. Income taxes

As of December 31, 2006, the Company has net operating loss carry over (NOLCO) amounting to ₱25,000 that can be claimed as deduction against future taxable income until December 31, 2009.

The related deferred tax asset on NOLCO amounting to ₱8,750 was not recognized as management believes that taxable income against which the deferred tax asset can be used may not be available.

REPORT ON REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
GMA Holdings, Inc.

Introduction

We have reviewed the accompanying interim financial statements of GMA Holdings, Inc., which comprise the unaudited interim balance sheets as at March 31, 2007 and 2006, and the unaudited interim statements of income, unaudited interim statements of changes in stockholders' equity and unaudited interim statements of cash flows for the three-month period ended March 31, 2007 and the period February 15, 2006 to March 31, 2006, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these unaudited interim financial statements in accordance with Philippine Financial Reporting Standards. Our responsibility is to express a conclusion on these unaudited interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited interim financial statements do not present fairly, in all material respects, the financial position of GMA Holdings, Inc. as of March 31, 2007 and 2006, and its financial performance and its cash flows for the three-month period ended March 31, 2007 and the period February 15, 2006 to March 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Melinda Gonzales-Manto
Partner
CPA Certificate No. 26497
SEC Accreditation No. 0085-AR-1
Tax Identification No. 123-305-056
PTR No. 0267366, January 2, 2007, Makati City

June 2, 2007

GMA HOLDINGS, INC.

UNAUDITED INTERIM BALANCE SHEETS
MARCH 31, 2007 AND 2006

	2007	2006
ASSET		
Current Asset		
Cash (Notes 5 and 6)	**₱100,830**	₱100,118
LIABILITY AND STOCKHOLDERS' EQUITY		
Current Liability		
Accrued professional fee	**₱25,000**	₱—
Stockholders' Equity		
Capital stock	**100,000**	100,000
Retained earnings (Deficit)	**(24,170)**	118
Total Stockholders' Equity	**75,830**	100,118
	₱100,830	₱100,118

See accompanying Notes to Unaudited Interim Financial Statements.

GMA HOLDINGS, INC.

UNAUDITED INTERIM STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2007
AND FOR THE PERIOD FEBRUARY 15, 2006 TO MARCH 31, 2006*

	2007	2006
INTEREST INCOME	**₱189**	₱147
FINAL TAX ON INTEREST INCOME	**(38)**	(29)
NET INCOME	**₱151**	₱118

* The Company was incorporated on February 15, 2006 and has not yet started operations as of March 31, 2007.
See accompanying Notes to Unaudited Interim Financial Statements.

UNAUDITED INTERIM STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2007 AND FOR THE PERIOD FEBRUARY 15, 2006 TO MARCH 31, 2006*

	2007	2006
CAPITAL STOCK - ₽10 par value		
Authorized and subscribed - 10,000 shares	**₽100,000**	₽100,000
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of period	**(24,321)**	—
Net income	**151**	118
	(24,170)	118
	₽75,830	₽100,118

* The Company was incorporated on February 15, 2006 and has not yet started operations as of March 31, 2007.
See accompanying Notes to Unaudited Interim Financial Statements.

GMA HOLDINGS, INC.

UNAUDITED INTERIM STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2007 AND FOR THE PERIOD FEBRUARY 15, 2006 TO MARCH 31, 2006*

	2007	2006
CASH FLOWS FROM PREOPERATING ACTIVITIES		
Income before income tax	**₱189**	₱147
Adjustments for:		
Interest income	**189**	147
Interest received	**(189)**	(147)
Net cash generated from preoperating activities	**189**	147
Final tax paid on interest income	**(38)**	(29)
Net cash provided by preoperating activities	**151**	118
CASH FLOW FROM FINANCING ACTIVITY		
Proceeds from subscriptions to capital stock	**—**	100,000
NET INCREASE IN CASH	**151**	100,118
CASH AT BEGINNING OF PERIOD	**100,679**	—
CASH AT END OF PERIOD	**₱100,830**	₱100,118

* The Company was incorporated on February 15, 2006 and has not yet started operations as of March 31, 2007.
See accompanying Notes to Unaudited Interim Financial Statements.

1 Corporate Information

GMA Holdings, Inc. (the Company) was incorporated in the Philippines on February 15, 2006 to invest in, purchase or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose real and personal property of every kind and description.

The Company has not started operations as of March 31, 2007.

The registered office address of the Company is Unit 5D Tower One, One McKinley Place, New Bonifacio Global City, Fort Bonifacio, Taguig City.

The accompanying unaudited interim financial statements of the Company as of March 31, 2007 and 2006 and for the three-month period ended March 31, 2007 and for the period February 15, 2006 to March 31, 2006 were authorized for issue by the Board of Directors on June 2, 2007.

2 Basis of Preparation

The unaudited interim financial statements of the Company have been prepared using the historical cost basis. The unaudited interim financial statements are presented in Philippine peso, which is the Company's functional and reporting currency. All values are rounded to the nearest peso, except when otherwise indicated.

<u>Statement of Compliance</u>
The accompanying unaudited interim financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) issued by the Financial Reporting Standards Council.

<u>Changes in Accounting Policies</u>
The Company adopted the following new and amended standards and Philippine Interpretations effective January 1, 2007:

- PFRS 7, *Financial Instruments: Disclosures*, introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The adoption of this standard did not have any effect on the financial position of the Company. It did, however, give rise to additional disclosures. The new disclosures are included throughout the unaudited interim financial statements.

- PAS 1, *Amendment to Presentation of Financial Statements*, requires the Company to make additional disclosures to enable the users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The adoption of this amendment did not have any effect on the financial position of the Company nor give rise to additional disclosures.

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*, becomes effective for financial years beginning on or after March 1, 2006. This interpretation provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax. The adoption of this interpretation did not have any impact on the unaudited interim financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*, becomes effective for financial years beginning on or after May 1, 2006. This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The adoption of this interpretation did not have any impact on the unaudited interim financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The adoption of this interpretation did not have any impact on the unaudited interim financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, becomes effective for financial years beginning on or after November 1, 2006. It provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and available-for-sale (AFS) investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at annual balance sheet date. The adoption of this interpretation did not have any impact on the unaudited interim financial statements.

<u>Future Changes in Accounting Policies</u>

- PFRS 8, *Operating Segments,* will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheets and statements of income and companies will need to provide explanations and reconciliations of the differences. The Company does not expect the standard to have any impact on the financial statements.

- Philippine Interpretation IFRIC 11, IFRS 2 - *Group and Treasury Share Transactions*, will be effective on March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company does not expect this interpretation to have any impact on the financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangement*, will become effective on January 1, 2008. This interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private sector operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure. This interpretation will have no impact on the Company's financial statements as this is not relevant to its current operations.

3 Summary of Significant Accounting and Financial Reporting Policies

<u>Cash</u>
Cash pertains to cash in bank which earns interest at the respective bank deposit rates.

<u>Provisions</u>
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

<u>Interest Income</u>
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

<u>Taxes</u>
Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance sheet date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward benefits of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to the items recognized directly in equity is recognized in equity and not in the unaudited interim statements of income.

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

Sales Tax. Revenue, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the unaudited interim balance sheets.

Contingencies

Contingent liabilities are not recognized in the unaudited interim financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the unaudited interim financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

Post-balance sheet events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the unaudited interim financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes to unaudited interim financial statements when material.

4 Significant Accounting Estimates and Assumptions

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the unaudited interim financial statements and related notes.

The estimates and assumptions used in the unaudited interim financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Estimating Realizability of Deferred Tax Assets

The Company's assessment on the recognition of deferred tax assets on nondeductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Company's future expectations on revenue and expenses. The Company has no recognized deferred tax asset as of March 31, 2006 and 2007.

Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Unrecognized deferred tax asset amounted to ₱8,750 as of March 31, 2007 (see Note 7).

5 Financial Risk Management Objectives and Policies

The Company's financial instrument pertains to cash. The main purpose of the financial instrument is to finance the Company's operations. The main risk arising from the use of financial instrument is liquidity risk.

Liquidity Risk

The Company's objectives to manage its liquidity profile are: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

As of March 31, 2007, the Company's financial liability amounting to ₱25,000, which pertains to accrued professional fee based on contractual undiscounted payments, matures in less than three months.

6 Financial Asset and Liability

The carrying amounts of cash and accrued professional fee as of March 31, 2007 and 2006 approximate fair values due to the relatively short-term maturities of these financial instruments.

7 Income Taxes

As of March 31, 2007, the Company has net operating loss carry over (NOLCO) amounting to ₱25,000 that can be claimed as deduction against future taxable income until December 31, 2009.

The related deferred tax asset on NOLCO amounting to ₱8,750 was not recognized as management believes that taxable income against which the deferred tax asset can be used may not be available.

Registered Head Office and
Principal Executive Office of the Company

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Philippines

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GMA Network, Inc.
GMA Holdings, Inc.

GMA

Primary Share Offer on behalf of the Company of 91,346,000 Common Shares at a Share Offer Price of ₱8.50 per share

PDR Offer on behalf of the Company of 91,346,000 PDRs relating to 91,346,000 Common Shares and
PDR Offer on behalf of the Selling Shareholders of 730,769,000 PDRs relating to 730,769,000 Common Shares at a PDR Offer Price of ₱8.50 per PDR

Sole Global Coordinator, Bookrunner and Lead Manager

Deutsche Bank

Joint Lead Manager, Domestic Lead Underwriter and Issue Manager

ATR KimEng
CAPITAL PARTNERS, INC.

July 14, 2007