



eNABLING THE NATION

ANNUALREPORT2006

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PLDT is the leading telecommunications service provider in the Philippines. Through its three principal business groups—wireless, fixed line, and information and communications technology—PLDT offers the largest and most diversified range of telecommunications services across the Philippines’ most extensive fiber optic backbone and wireless, fixed line and satellite networks.

PLDT is listed on the Philippine Stock Exchange (PSE: TEL) and its American Depositary Shares are listed on the New York Stock Exchange (NYSE:PHI). PLDT has one of the largest market capitalizations among Philippine-listed companies.

SUBSIDIARIES

Wireless

SMART COMMUNICATIONS, INC. AND SUBSIDIARIES
PILIPINO TELEPHONE CORPORATION
TELESAT, INC.
ACeS PHILIPPINES CELLULAR SATELLITE CORPORATION
MABUHAY SATELLITE CORPORATION

Fixed Line

PLDT CLARK TELECOM, INC.
SUBIC TELECOMMUNICATIONS COMPANY, INC.
PLDT GLOBAL CORPORATION AND SUBSIDIARIES
PLDT-MARATEL, INC.
BONIFACIO COMMUNICATIONS CORPORATION
SMART-NTT MULTIMEDIA, INC.

Information and Communications Technology

ePLDT, INC. AND SUBSIDIARIES
ePLDT VENTUS, INC.
SPi TECHNOLOGIES, INC.

MISSION STATEMENT

PLDT will be the preferred full service provider of voice, video and data at the most attractive levels of price, service quality, content and coverage, thereby bringing maximum benefit to the Company’s stakeholders.

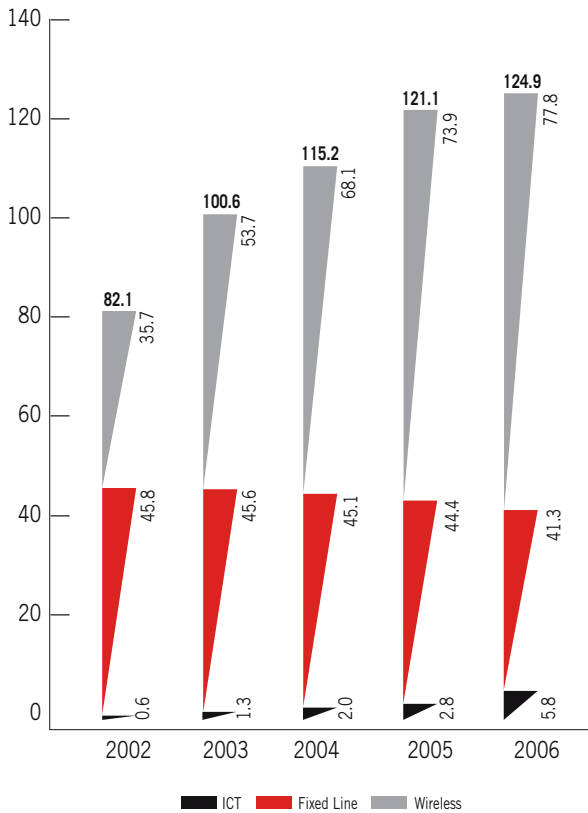
COMPARATIVE HIGHLIGHTS

	2002	2003	2004	2005	2006
FINANCIAL INFORMATION (in millions, except cash dividends per share of common stock)					
Revenues and Other Income					
Service Revenues	₱ 82,093	₱ 100,604	₱ 115,206	₱ 121,062	₱ 124,934
Non-service Revenues	12,145	10,714	6,269	3,312	2,967
Other Income	857	965	4,729	1,670	5,740
	95,095	112,283	126,204	126,044	133,641
Expenses					
Depreciation and Amortization	22,081	23,606	21,405	30,822	31,869
Compensation and Benefits	11,026	14,740	12,025	14,136	18,359
Financing Costs	20,876	26,550	19,264	9,133	9,084
Maintenance	3,867	4,931	5,671	6,705	6,886
Costs of Sales	17,281	16,094	11,352	6,501	5,522
Selling and Promotions	3,648	4,394	5,478	5,093	5,010
All Others	30,759	21,421	18,077	15,039	14,722
	₱ 109,538	₱ 111,736	₱ 93,272	₱ 87,429	₱ 91,452
Net Income (Loss) Attributable to Equity Holders of PLDT	(₱ 15,613)	₱ 1,363	₱ 28,031	₱ 34,112	₱ 35,116
Property, Plant and Equipment	₱ 290,743	₱ 306,862	₱ 324,991	₱ 331,537	₱ 347,408
Accumulated Depreciation, Amortization and Impairment	87,162	112,072	130,466	154,563	183,218
Net	₱ 203,581	₱ 194,790	₱ 194,525	₱ 176,974	₱ 164,190
Capital Expenditures	₱ 16,904	₱ 18,019	₱ 21,162	₱ 14,990	₱ 20,674
Debt ¹	₱ 183,145	₱ 178,589	₱ 149,088	₱ 103,544	₱ 79,953
Equity Attributable to Equity Holders of PLDT	₱ 22,823	₱ 19,361	₱ 46,330	₱ 73,207	₱ 102,977
Cash Dividends Declared and Paid Per Share of Common Stock	₱ 1.20	₱ –	₱ –	₱ 56.00	₱ 78.00
OPERATING INFORMATION					
Number of Cellular Subscribers	8,599,306	12,947,197	19,208,232	20,408,621	24,175,384
Number of Fixed Line Subscribers	1,848,395	1,869,770	1,834,306	1,842,507	1,776,647
Number of Stockholders	2,144,953	2,207,008	2,200,367	2,193,525	2,189,374
Number of Employees	18,704	17,653	18,433	18,926	28,219
Wireless	5,008	4,977	5,289	5,137	5,358
Fixed Line	12,351	10,518	9,692	9,197	8,711
ICT	1,345	2,158	3,452	4,592	14,150

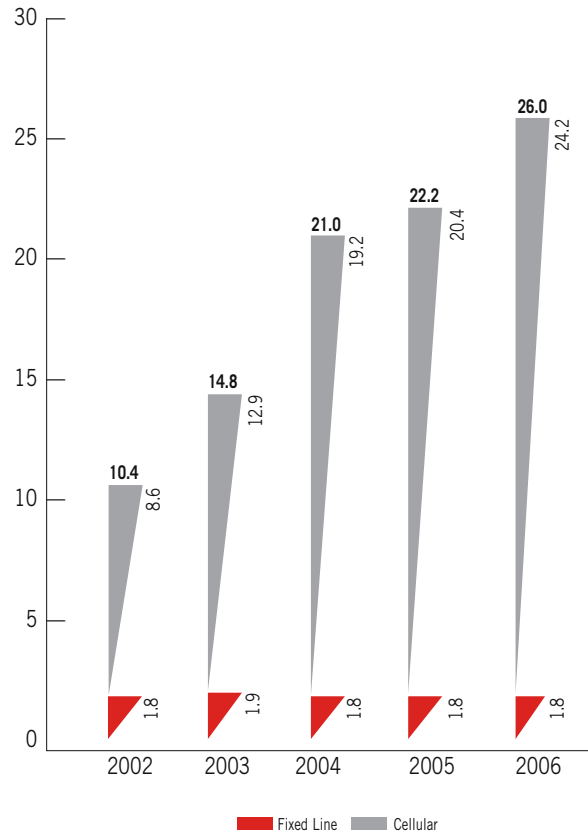
¹ Represents short-term and long-term debt.

CONSOLIDATED FINANCIAL PERFORMANCE HIGHLIGHTS

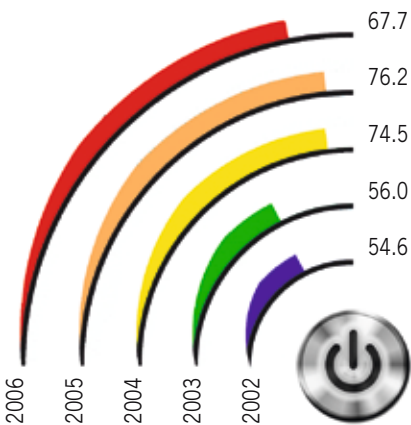
Service Revenues
(in billion pesos)



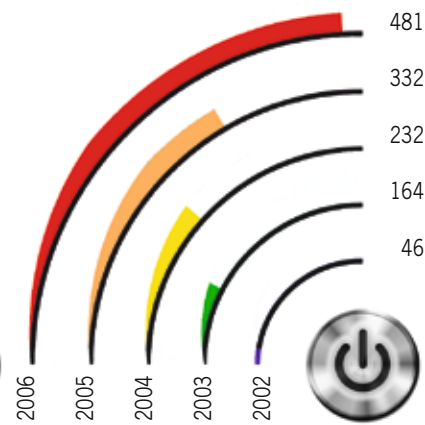
Subscriber Base
(in millions)



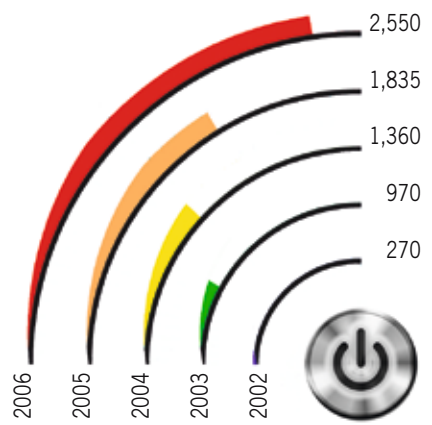
Cash Flows from Operations
(in billion pesos)



Market Capitalization
(Year-end, in billion pesos)



Share Price
(Year-end, in pesos)





My Fellow Shareholders,

Our Company sustained its strong performance across all metrics in the year 2006, despite increasingly demanding operational and competitive challenges.

Service revenues, net profits and cash flows remained robust in the year. PLDT continued to pay down debt and raise dividend payments to historically unprecedented levels. Our Company stepped up its investments in next generation technologies and embarked in new ventures such as business process outsourcing (BPO) in order to better position our Company to deliver further growth in the years ahead.

As a result of these initiatives, we have made major strides in transforming PLDT into a diversified telecoms conglomerate offering next generation services that combine connectivity with compelling content and innovative applications.

Performance Drivers: Cellular and Data

Our financial performance continued to be driven by our healthy cellular and data revenues as well as our rapidly-rising information and communications technology (ICT) businesses, even as we stabilized our fixed line business.

Reported net income reached Php35.1 billion in 2006, up 3% from 2005. Core net profit – which excludes exceptional gains – rose by 9% to Php31.5 billion. Service revenues and EBITDA both increased by 3% to Php124.9 billion and Php79.7 billion, respectively.

The Group's balance sheet further strengthened as consolidated debt balances continued to decline. As at 31st December 2006, net debt stood at US\$1.2 billion. Net debt to EBITDA and net debt to free cash flow ratios improved to 0.7 times and 1.7 times, respectively.

In this regard, I note with great satisfaction that Pilipino Telephone Corporation (Piltel) extinguished the balance of its outstanding restructured debt after repaying a total of US\$408.6 million in two installments in 2006. This has left Piltel debt-free and places it in a position to declare dividends in the near future. Such a prospect was unthinkable eight years ago when it seemed that Piltel's financial fortunes were beyond redemption.

As we endeavor to move the PLDT Group ahead in its transformation process to provide next generation communications, capital expenditures during the year increased to Php20.7 billion. The investments we continue to make in our infrastructure is a key enabler for us to provide a wider array of products and services to our customers, whose taste for new and innovative products continues to grow in sophistication and for better value. Notwithstanding the increase in our capital expenditures, consolidated free cash flow remained healthy at Php31.6 billion.

As of the date of the release of this Annual Report, we paid out Php100 in total dividends per share, representing a total payout of 60% of our 2006 core earnings. Total dividend payouts thus increased by 53% to Php18.8 billion, from Php12.3 billion in 2005. Our Company's robust cash flows, coupled with a strong balance sheet, allowed us to enhance the returns we give to our shareholders, while maintaining significant financial flexibility in the event that attractive investment opportunities emerge for us to realize.

We ended the year 2006 with our share price at Php2,550, up 39% from the prior year's closing. Our market capitalization as at 31st December 2006 thus stood at Php481 billion, confirming our position as the country's largest capitalized company. On 10th November, 2006, your confidence in our Company allowed us to establish a new all-time high as the share price traded as high as Php2,610, and closed at a record of Php2,580.

Looking forward to 2007, our view is that PLDT's performance will be influenced by a number of factors, including efforts at identifying and building new revenue sources for the PLDT Group, continuing cost controls, the volatility in the Philippine peso to U.S. dollar exchange rates and rising income tax provisions. For 2007, we estimate our core net income to rise to the range of Php32 – Php33 billion. Moreover, the gap between core and reported revenues will begin to close as the declining debt levels of the Group reduce the impact of foreign exchange movements on our profit position.

Managing Transition

PLDT's 2006 results are best understood in the context of the ongoing transformation being undertaken by the Group. We are in the process of moving from traditional telco businesses to what we call next generation communications.

We are at a critical stage of this transition – a time when a delicate balance must be struck between the need to capitalize on our existing businesses while building the businesses of the future.

To successfully manage this transition, the Group is pursuing the following strategies:

- Maximize the value of existing businesses. This requires taking full advantage of revenue opportunities presented by the Group's existing subscriber base and existing infrastructure – both of which are the largest and most extensive in the industry.
- Develop new revenue streams. We are pursuing innovation in various fronts such as enhancing the utility of cellular phones for the largest possible number of users, growing aggressively our broadband and other data services, propagating our m-commerce and remittance services, and expanding our call center and BPO businesses.
- Improve operating efficiencies. There is a clear need to control costs even as we deal with exceptional demands created by the transition process. We are re-engineering our business and technical processes to align them with the requirements of our Next Generation Network (NGN) roll out. Moreover, the Group is striving to improve quality of service even as we offer increasingly more complex products and services.
- Deliver growth and enhance shareholder returns. This requires maintaining the proper balance of free cash flow utilization between investments in new growth areas and returning cash to shareholders. Depending on how conditions unfold in 2007, we shall consider alternative measures to enhance further cash returns to shareholders.

Early Results

Some aspects of this transformation have already been evident in PLDT's performance in 2006.

Significantly, data, broadband and ICT revenues were up by 18% to Php56.1 billion, offsetting a 6% decline in the combined fixed line and cellular voice revenues – traditionally the bread-and-butter business of a telco.

Noteworthy is the rapid growth of our broadband business on the back of the Group's wired and wireless infrastructures. Internet and broadband revenues grew by 49% to Php5.2 billion as the number of *PLDT myDSL* and *SmartBro* broadband subscribers more than doubled to 265,000 by year end.

We are in the process of moving from traditional telco businesses to what we call Next Generation Communications.



ePLDT's ICT service revenues more than doubled from Php3.0 billion in 2005 to Php6.3 billion in 2006, driven by the growth of its call center (*ePLDT Ventus*) and the acquisition of SPi Technologies, Inc. (SPi) which is ranked fourth globally amongst the "Top Best BPO Providers."

These results augur well for the Group's efforts to develop new revenue sources and to build or acquire businesses beyond traditional telecommunications.

New Initiatives

In late 2006 and early 2007, MediaQuest Holdings, Inc. (MediaQuest), a wholly-owned subsidiary of the PLDT Beneficial Trust Fund, and Smart joined hands to conduct test broadcasts of a mobile TV service using the Digital Video Broadcast – Handheld (DVB-H) standard. This was made possible through MediaQuest's subsidiary, Nation Broadcasting Corp., which has a broadcast franchise and already operates a network of radio stations.

We expect to launch the commercial service of *Mobile TV* in collaboration with the MediaQuest Group sometime mid-2007, highlighting the Group's efforts in combining connectivity with video content for an entirely new consumer experience.

In February 2007 at the 3GSM Congress in Barcelona, Spain, Smart Communications, Inc. (Smart) announced that it would soon launch pilot projects in the Middle East and Europe which offer low-cost remittance services using its cellular phone-based financial services platform. Called the *Smart Services Hub*, the platform will enable migrant workers using the services of Smart's telco and banking partners abroad to send remittances to the Philippines via SIM-based services anytime, anywhere – effectively, money at the speed of a text message.

Anchored on the *Smart Money* platform, Smart's next generation mobile commerce services will impact on a wide range of businesses, extending their reach and enabling them to serve a larger market at lower cost.

If you recall, *Smart Money* and *Smart Load* enabled Smart to broaden the market for cellular phone services by offering electronic airtime load in small "sachet" packs. By working with partners to apply mobile commerce technologies to the financial, transport, retail and other industries, the Group will build profitable new businesses while raising the efficiencies and enhancing the capabilities of key economic infrastructure sectors.

Our unfolding initiatives in next generation mobile commerce are enabling us to develop platforms and services that are geographically agnostic. This opens up new and exciting opportunities for the Group to offer our

services across borders and serve markets previously beyond the reach of any Philippine telco.

Partner in Development

By moving up the value chain through advanced services, PLDT is expanding its role as a serious partner in the country's overall development. In the past, our innovations have helped made modern fixed and mobile communications more affordable and available to Filipinos throughout the archipelago. The new services and solutions that we are beginning to roll out will further enhance consumer welfare.

This approach to building our businesses is complemented by active involvement in a variety of corporate social responsibility programs. Through the PLDT-Smart Foundation, the Group is pursuing projects in the following key areas: (1) enhanced education by providing broadband access to public schools nationwide and through the *Gabay Guro* program; (2) community development through the continued support to *Gawad Kalinga*, military housing and a national disaster reduction and management program; (3) youth development efforts with the Department of Education and the building of a juvenile rehabilitation center; (4) poverty alleviation through broadband livelihood projects and microfinance lending in cooperation with the Philippine Business for Social Progress; and (5) sports development through a nationwide grassroots campaign with the *Samahang Basketbol ng Pilipinas*–Basketball Association of the Philippines (SBP-BAP).

Conclusion

"eNabling the Nation" – the theme for this year's Report – captures the exciting developments that have taken place within PLDT in 2006 and the possibilities that lie ahead in 2007 and beyond.

In conclusion, I must underscore that the excellent condition of our Company today is the result of the dedicated efforts of our management and staff, the wise counsel of our Board of Directors and the generous support of our shareholders.

On behalf of the Board of Directors and our more than 28,000 people, let me assure our Shareholders that we at PLDT remain committed to excellence in all our endeavors, as we strive to create a new future for ourselves and the country.

MANUEL V. PANGILINAN
Chairman of the Board

Dear Shareholders,

I am pleased to report that our Company continues to perform strongly as we reported a consolidated net income of Php35.1 billion for 2006. This year's results benefited from the reversal of earlier provisions made in connection with an onerous contract relating to our satellite subsidiary, ACeS, offset by lower foreign exchange translation gains and lower benefit from the recognition of certain deferred tax assets, additional depreciation expense as well as higher asset impairment charges. Service revenues for the PLDT Group increased by 3% to Php124.9 billion, consolidated EBITDA improved by 3% to Php79.7 billion while EBITDA margin remained at 64% in 2006. More importantly, our core net income, net of the exceptional items, rose to Php31.5 billion in 2006, 9% over the core net income of Php29.0 billion in 2005. Core earnings attributable to each common share reached Php168 per share, an increase of 5% compared to Php160 per share in 2005.

Operating Highlights

Wireless

Consolidated wireless service revenues rose to Php78.4 billion for the full year 2006, 5% higher than the Php74.7 billion realized last year, with cellular subsidiaries, Smart and Piltel continuing their solid performance. Service revenues of Php20.4 billion in the fourth quarter were 5% higher than the third quarter revenues due to the increased usage normally associated with the holiday season despite the negative impact of natural calamities such as several typhoons which interrupted service in certain local areas intermittently.

Consolidated wireless EBITDA improved by 5% to Php50.3 billion in 2006 from Php47.9 billion in 2005 while EBITDA margins stayed at 64%.

The PLDT Group's total cellular subscriber base for the year grew by 3.8 million to 24.2 million. For the year, Smart recorded net additions of approximately 1.74 million subscribers while *Talk 'N Text* added about 2.0 million subscribers to end 2006 with 17.2 million and 7.0 million subscribers, respectively. In February 2007, the PLDT Group's cellular subscriber base surpassed the 25 million mark as Smart and Piltel added 900,000 new subscribers in the first two months of the year.

For 2006, Smart focused on segmenting its market by offering sector-specific, value-driven packages such as *All Text* – a new variety of top-up service providing a fixed number of messages with prescribed validity periods. Voice offerings included *Tipid Talk* and *All Talk 20*. In January 2007, Smart expanded on the *All Text* concept and introduced *LAHATxt*, a top-up which offers a bundle of text messages applicable to all networks, with *LAHATxt 35* available to all Smart prepaid subscribers and *LAHATxt 20* for *Talk 'N Text* subscribers. These innovative packages provide better network efficiency while increasing yield per SMS.

The second half of 2006 also saw a series of marketing initiatives designed to enhance both consumer product benefits as well as brand equities. Smart launched the "*Ang Saya*" thematic campaign, positioning *Smart Buddy* as an innovative lifestyle brand which adds excitement, fun and helps you get more "life out of life," while *Talk 'N Text*, on the other hand, had its "*Gumagaan ang Life*" thematic campaign affirming *Talk 'N Text*'s superior value proposition aimed at lower-income segments of the market.



Our core net income, net of the exceptional items, rose to Php31.5 billion in 2006, 9% over the core net income of Php29.0 billion in 2005.

Last February 12, 2007, at the 3GSM Congress in Barcelona, Spain, Smart announced that it would soon launch pilot projects in the Middle East and Europe offering low-cost remittance services using its cellular phone-based financial services platform. Called the *Smart Services Hub*, the platform will enable mobile operators and banks to serve the remittance needs of migrant workers in their respective countries. Through the platform, these workers will be able to send remittances to their countries via SIM-based services anytime, anywhere—all at the speed of a text message. Smart's initiatives are part of the global mobile money transfer program of the GSM Association, the global association of GSM operators. Supported by 19 of the world's leading mobile operators, this program aims to create a money transfer solution that will take advantage of the pervasiveness of cellular phone networks worldwide in order to lower the cost and raise the speed of remittances.

Smart will launch its cellular-based money transfer pilot in the Gulf state of Bahrain, under the brand name *Smart Remit*, in tandem with MTC Vodafone Bahrain of the MTC Group, one of the leading cellular phone groups in the region. Smart is also firming up a partnership with a leading regional bank based in Bahrain. In Europe, Smart is pursuing a similar arrangement with a mobile operator and a bank operating in Italy.

Consistent with its intent to develop new businesses beyond cellular, Smart has grown its wireless broadband subscriber base to about 122,000 by the end of 2006 under its *SmartBro* wireless broadband service. *SmartBro* added 29,000 new subscribers in the fourth quarter alone. Smart now has close to 2,500 wireless broadband-enabled base stations providing high-speed Internet access to about 500 cities and municipalities all over the Philippines. The increasing network coverage of *SmartBro* continues to provide the PLDT Group with a complementary service in areas that are currently not covered by PLDT's Fixed Line DSL service.

Fixed Line

Fixed Line service revenues decreased by 1% to Php49.1 billion in 2006 from Php49.7 billion in 2005 as improvements in data revenues, both from corporate data and residential DSL services, were offset by the continued decline in revenues from the local exchange and ILD services. Our dollar-linked revenues arising from the local exchange and ILD businesses were adversely impacted by the 6.8% appreciation of the average Philippine peso to U.S. dollar exchange rate in 2006. Fixed Line revenues would have improved 2% year-on-year if foreign exchange rates had remained stable.

Retail DSL continued to grow as broadband subscribers exceeded 133,000 at the end of 2006 with approximately 300,000 subscribers using our *Vibe* dial-up Internet service. *PLDT DSL* and *Vibe* contributed Php3.5 billion in revenues for 2006, up 32% from Php2.7 billion in 2005. *PLDT DSL* and *Vibe* made up 69% of the PLDT Group's broadband and Internet revenues for the year.

Fixed Line EBITDA in 2006 declined slightly to Php28.4 billion in line with the decrease in revenues; EBITDA margin remained stable at 58%.

ICT

ePLDT, the Group's information and communications technology arm, reported service revenues of Php6.3 billion for 2006, a 115% increase from Php3.0 billion last year, driven by the continued growth in the call center business (*ePLDT Ventus*) and the consolidation of SPi, after its acquisition in July 2006.

Consolidated call center revenues continued to make significant gains, growing 35% to Php2.6 billion as a result of increased capacity utilization and billable hours, for new and existing clients despite the appreciation of the peso. *ePLDT Ventus* now operates



seven facilities with combined seats of 5,600 and an employee base of 6,482.

SPi, on the other hand, generated revenues of Php4.8 billion in 2006, of which Php2.4 billion were consolidated into ePLDT from July 2006 onwards, after ePLDT completed its acquisition that month. In addition to the Philippines and the U.S.A., SPi has operations in India and Vietnam. Consolidated seats total 3,700 of which 80% are located in the Philippines. SPi was ranked fourth globally among the “Top Best BPO Providers” and fifth among “Top Leaders in Human Capital Development” by CMP/Cybermedia. SPi has also been included in the “Leaders Category” for The 2007 Global Outsourcing 100 by the International Association of Outsourcing Professionals.

Together, our contact center business—voice and data—had approximately 9,300 seats and a manpower complement of close to 12,000. ePLDT’s participation in these key growth sectors allows the PLDT Group to diversify its revenue base and tap into markets outside the domestic economy.

Financial Initiatives

The Group’s consolidated balance sheet continued to strengthen with the consolidated debt balance down to US\$2.1 billion. The PLDT Group reduced debts by US\$713 million, significantly ahead of the stated target of US\$500 million set at the beginning of the year.

Consolidated free cash flow remained strong at Php31.6 billion in 2006 despite the increases in capital expenditures and working capital requirements. Consolidated capital expenditures increased to Php20.7 billion, or 38% higher than 2005 levels, and were primarily utilized on the rollout of our 3G network and 150,000 NGN lines, the build-out of 2,300 wireless broadband-capable base stations and the expansion of the Company’s nationwide Domestic Fiber Optic Network. Total capital expenditures for 2006 remained below annual depreciation costs and represented 17% of service revenues. Capital expenditures for the Group are expected to range between Php20 – Php22 billion in 2007.

Approximately Php21 billion of our cash was utilized to repay debt with another Php18.8 billion being used to payout cash dividends and the balance of Php9.5 billion for investments in new businesses. On 4th December 2006, Piltel made a final prepayment of US\$232.6 million, representing the balance of Piltel’s total outstanding restructured debt after the initial amount of US\$176 million was prepaid on 5th June 2006. Of the total prepayments, US\$127 million was

paid to third party creditors with the balance being paid to parent company, Smart.

Dividend Payments

On 6th March 2007, our Company’s Board of Directors declared a final dividend of Php50 per share. Added to the previously paid interim dividend of Php50 per share, total dividends attributable to our 2006 earnings will amount to Php100 per share, representing a payout of 60% of 2006 core earnings. Total dividend payments for 2006 increased by 53% to Php18.8 billion, from Php12.3 billion in 2005.

Direction for 2007 – Pursuing and Managing Change

We must remember that the move to NGN is not the goal in itself but rather a key enabler for the Group’s transformation to what we call Next Generation Communications. This transformation goes beyond upgrading our network to an all-IP NGN. We will need to re-engineer our processes, integrate our platforms, transform our products and re-orient our people. In so doing, we will enable the PLDT Group not only to cope with change but to benefit from it as well. In 2006, we saw the beginnings of this transformation as we rolled out NGN, 3G and wireless broadband. In 2007, we will work on the integration of our information technology and other convergent platforms. We will maximize the opportunities provided by our large subscriber base and our extensive infrastructure, especially in the rapidly expanding broadband space where we can harness our fixed and wireless capabilities to capitalize on its huge potential. We will continue to drive innovation as exemplified by our recent initiatives on the m-commerce and remittance fronts.

To echo the words of our Chairman, Manuel V. Pangilinan, beyond protecting our base businesses and developing new revenue streams, we are cognizant of the pivotal role we play in nation building. Our investments will equip our country with the requisite infrastructure to continue its economic progress and, at the same time, provide Filipinos everywhere with relevant, high-value and affordable services.

NAPOLEON L. NAZARENO
President and CEO

eNABLING THE NATION

By the nature of its business, telecommunications acts as a catalyst for development. In a world that relies on seamlessly passing around gigabytes of data for its living and leisure, the industry's vital role in the life of countries and communities everywhere looms larger than ever.

In the Philippines, telecommunications has become a highly visible economic force. For the past decade, it has become one of the bright spots in the Philippine economy, contributing significantly to economic growth, investment, employment and government revenues.

By one count, the sector (which covers fixed and mobile telephony) accounted for about 4% of total gross domestic product (GDP) and 6%-7% of total investments between 1999 and 2003. Wages and salaries for direct employment amounted to around US\$300 million in 2005 alone. Total taxes paid by various telecommunications companies account for 6%-7% of the government's tax collections.

The indirect economic contribution of the industry is even more substantial. In a study of the cellular phone industry in India, China and the Philippines done by McKinsey & Company, it was found that the total economic impact of mobile telephony in these economies was several times larger than its direct contribution.

In the case of the Philippines, mobile operators contributed 2% of GDP in 2005. But with its spill-over effects considered, the contribution rises to 7.5% of GDP. This spill-over effect can be clearly seen in



employment. While more than 20,000 people were directly employed by mobile operators, another 40,000 to 60,000 were employed in supporting industries.

The rapid growth of the telecommunications industry has brought considerable benefits to its customers. First of all, as a result of huge investments, telecommunications companies have expanded their respective networks. The cellular phone network of Smart for example now covers 99% of the population.

Price levels have also fallen across mobile, IDD and local toll calls by 30%, 26% and 7%, respectively, since 1998. The McKinsey study showed, for example, that the average mobile service prices in the Philippines declined by 40% from 2002 to 2006 – a larger reduction than in Europe where prices fell by 21% and the United States, where prices rose by 8%. In fact, price levels in Europe and the Philippines were about the same in 2002, but by 2006, had fallen further in the Philippines than in Europe. On the average, prices in the Philippines have also fallen more than in other countries in the Asia-Pacific region – a sign perhaps that competitive forces are very much at work in the Philippines.

Competition has certainly made the Philippine telecommunications industry one of the most innovative in the world. Both PLDT and Smart, for example, have won international and local awards for pace-setting innovations in fields such as mobile commerce (for *Smart Money* and *Smart Load*) and data solutions (PLDT's *Shops.work*, *SWUP*, *F.A.S.Track* and *PLDT WeRoam*).

Filipinos have taken advantage of the wide availability of fixed and wireless services to raise their productivity and enhance their leisure. Farmers and fishermen now routinely exchange price and supply information regarding their produce. Families keep in touch daily with their relatives working overseas through text messaging.

The catalytic role of telecommunications has become even more pronounced in the data-driven world of the 21st century. The sunrise industries of today, where the Philippines has a competitive edge, rely heavily on broadband communications.

A case in point are call centers and BPO firms. There are about 200 call centers and BPO firms operating in the country with roughly 200,000 agents. The government is banking on this industry to keep on growing, generating and bringing in more well-paying jobs and more substantial foreign exchange income.

For this to happen – and other growth sectors of the economy to prosper – the telecommunications industry must provide the enabling infrastructure and supporting services.

The articles that follow provide examples of how the PLDT Group is enabling the nation.



Filipinos have taken advantage of the wide availability of fixed and wireless services to raise their productivity and enhance their leisure.





Becoming a GLOBAL PLAYER

Back in 2002, Rodella “Deng” Perez shifted careers from being a nurse at one of the country’s leading hospitals to working at one of the country’s pioneer BPO companies.

She started as a supervisor for SPi’s newly established Healthcare business unit and worked in medical transcription, transcribing at least 500 lines a day. Today, she is a Quality Manager, overseeing quality assurance for all Healthcare projects. “I see myself growing here,” Deng says. Indeed, she and several hundred thousand other Filipinos.

Deng is one of the fast growing number of Filipinos working in the country’s outsourcing sector. Recognized as the “sunshine industry” in the Philippines, the BPO industry generated US\$2.1 billion in offshore revenues in 2006, a huge leap from the start of the decade when the outsourcing industry had revenues of just US\$24 million and employed 2,400 people.

Today, about 200,000 people work in approximately 200 call centers and BPO companies. According to some forecasts, by the year 2010, outsourcing in the Philippines will be earning US\$11 billion annually and employing 900,000 people.

The recent surge in growth in the outsourcing industry in the Philippines has been powered by BPO covering legal services, web design, medical transcription, software development, animation and shared services.



To establish its presence in this sector of the market, ePLDT acquired 100% of SPi in July 2006. With its nearly 30 years of BPO experience, and 6,900 specialists worldwide, SPi is ranked fourth in the world's Top 10 BPO companies. Aside from the Philippines, it has operations in the United States, India and Vietnam. Its services include publishing (such as content conversion, composition, editorial and delivery), medical transcription and legal documentation.

SPi is itself on an acquisition mode. In 2006, it purchased CyMed, Inc. (CyMed), a leading provider of medical transcription services to more than 400 clients across the United States. Today, SPi is considered as the third largest medical transcription services provider in the U.S. market.

In April 2007, SPi also acquired Springfield Service Corp., the 10th largest player in the medical billing and revenue cycle management market in the United States.

By acquiring SPi through ePLDT, PLDT has in one move fortified its position as one of the world's leading BPO services providers.

A World Leader

In outsourcing, the Philippines is a world leader, ranked third behind India and China. The country is a preferred location for outsourcing because of its pool of low-cost yet English- and IT-proficient workers, especially those with medical, business, accounting, HRM and engineering backgrounds.

Offshore call centers currently account for the bulk of the outsourcing business in terms of jobs and revenues. Major global companies such as AIG, AOL, Citigroup, Dell, Hewlett Packard, IBM, HSBC, JP Morgan Chase have put up their own call centers in the Philippines to handle their internal requirements. Leading BPO vendors such as Accenture, Convergys and Unisys have also set up shop here to service their U.S. clients.

PLDT has become a leading call center operator through ePLDT Ventus, a wholly-owned subsidiary of ePLDT which is the ICT arm of PLDT. As of end-2006,

ePLDT Ventus had over 5,130 employees providing customer care, billing, technical support and sales and collections services to U.S. companies operating in fields such as satellite TV, consumer electronics, financial services and pharmaceuticals.

ePLDT Ventus has enjoyed rapid organic growth and has thus been expanding its facilities to cope with rising demand for its services. Its latest call center site in Libertad, Mandaluyong City, was completed in record time in 2006. The 600-seat facility complements the existing ePLDT Ventus facilities in 6 other locations—two in Fort Bonifacio, Taguig; and one each in Jupiter, Makati City; Garnet, Pasig City; East Avenue, Quezon City; PLDT's MGO Building, Makati City; and Molo, Iloilo City.

With the combined workforce of ePLDT Ventus and SPi, ePLDT now employs over 15,000 agents, and utilizes 8,500 seats, in its combined outsourcing operations.

Its outsourcing revenues are growing briskly. Consolidated call center revenues of ePLDT Ventus rose from Php1.9 billion in 2005 to Php2.6 billion to 2006. SPi on the other hand, generated revenues amounting to Php4.8 billion in 2006, of which Php2.4 billion were consolidated into ePLDT from July 2006 onwards, upon the completion of ePLDT's acquisition of SPi. The combined revenues of ePLDT Ventus and SPi, of approximately Php5.0 billion, account for 79% of the ePLDT's total service revenues.

ePLDT is now in a strong position to contribute to the growth of the outsourcing industry in the country. It can offer both voice and non-voice services to international clients depending on their requirements. Through its international operations, it has access to important markets such as the United States.

"We are in a position to help the outsourcing industry in the Philippines attain its full potential," said Ray C. Espinosa, ePLDT President and CEO.





Serving the global PINOY

As a project accountant for an international engineering and construction management firm in Abu Dhabi, Jorge Tabilin, a Filipino working overseas, faces a tough grind everyday.

Tabilin puts in ten hours of work daily, resting only on Fridays, so he can send money back home to feed and clothe his family, get his three growing boys through school, and, hopefully, still have some money left for his retirement.

Remitting funds back home has always been a chore for Tabilin given his hectic schedule, and rather expensive, too. But soon, like other Filipinos working overseas, he will find it as easy as tapping out a text message on his cell phone. This will be made possible by the next generation of cellular phone-based remittance services Smart is poised to roll out.

Next Generation Remittances

In early 2007, Smart introduced its *Smart Services Hub* at the 3GSM World Conference in Barcelona. This new mobile commerce platform will enable Filipinos in the Middle East, Europe and elsewhere to remit funds using their cell phones. Employing an innovative mix of advanced mobile commerce technologies and a collaborative business model, Smart will accomplish this through partnerships with cell phone operators and commercial banks in countries hosting large Filipino communities.

Using the cell phone service of a telco that has partnered with Smart, Filipinos overseas can draw funds from their deposit account in a partner bank in their host country and send these monies to a deposit account of their family in a Philippine bank or to their *Smart Money* account. It is as easy as following a simple menu embedded in his cell phone SIM. The transaction takes place at the speed of a text message, after which both sender and recipient will receive an SMS confirming the remittance.

With this service, Filipinos will be able to send home funds whenever they want, in the amounts they wish, as frequently as they require at a cost markedly lower than traditional remittance methods.

The *Smart Services Hub* applies the lessons learned by Smart since it introduced in 2004 *Smart Padala*, the world's first SMS-based remittance service. Through this service, Filipinos abroad can send money via remittance companies that utilize the *Smart Money* platform to transfer funds directly to the cell phones of their beneficiaries. The beneficiary can then withdraw the cash via ATMs of partner banks or *Smart Money* centers in the Philippines.

Smart's continuing innovation in the area of remittances highlights the growing importance that the PLDT Group attaches to addressing the needs of the huge overseas Filipino community.

There are millions of Filipinos like Jorge Tabilin spread around the world, sacrificing peace of mind and, at times, even their own safety just to secure a better future for their families. And the ranks of "*Global Pinoy*" keep growing.

In 2006, around 1.08 million Filipinos crossed the seas to work as contract workers in over 190 countries and territories. They joined other 8 million Filipinos – hailed as heroes for helping the local economy afloat – who remitted US\$12.8 billion last year – exceeding government forecasts of US\$10 – US\$11 billion.

Responding to their needs, PLDT has initiated innovative programs and services offering increasingly more affordable and convenient communications services, remittance services and, more recently, entrepreneurship opportunities.

Keeping Families in Touch

The first task is to keep Filipinos abroad in touch with their families and loved ones back home affordably and conveniently. As Tabilin recounts, of all the challenges that he faces daily, nothing compares to homesickness and boredom. "I was weeping the first time I talked to



my wife over the telephone after arriving in Saudi Arabia in the early 90s," said Tabilin, who at 44, continues to bear the pain of being separated from his family.

PLDT addresses this need through various communication platforms ranging from landlines to broadband Internet to cellular phones.

The *PLDT Budget Card* and the *Pwede! Card*, for example, have made international calls much easier and less costly. These two products are both prepaid cards that can be used for international and local calls. A reloadable card, the *Pwede! Card* offers an added feature that can be used for accessing the Internet. With either card, calling overseas can be done using any PLDT landline. With this development, owning a phone is no longer necessary to do all these.

Using a *PLDT Budget Card*, calls abroad are also much more affordable. Calls to the United States, Canada and Hong Kong cost only Php3 per minute; while calls made to China, Malaysia, Singapore, South Korea and Taiwan cost only Php5 per minute. Calls to other destinations are pegged at Php8 pesos per minute. Aside from these, there are other special promos that offer even better rates.

PLDT is also using its broadband Internet services to provide the families of Filipinos overseas low-cost alternatives for communicating with their relatives. For instance, *PLDT myDSL* offers ID-DSL and Voice Pad services which allow DSL subscribers to use their broadband connection to make overseas calls using Voice over Internet Protocol (VoIP). This is on top of other services such as chatting and e-mail that are widely available through various portals. The popularity of such services has helped power the growth of PLDT's broadband subscriber base.



Going Mobile

Given the immense popularity of cellular phones, large volumes of overseas calls flow through these devices. Smart offers innovative services that enhance the value of cell phones for overseas Filipinos and their families. One such service is *International Voice Text* which rides on the ubiquitous usage of text messaging. For the same price of an international SMS, a person located in the Philippines can send a 30-second voice message to relatives abroad. If the receiving party does not have a cell phone, the voice message can alternatively be sent via SMS to the recipient's e-mail address. This is called the *VoiceTXT to e-mail*.



These voice text services combine the emotional impact of the human voice with the convenience and affordability of text messaging. Because SMS is quite affordable, many Filipinos abroad frequently exchange text messages with their families at home. With voice text services, the sense of connection is even stronger. Imagine the difference between a text message saying "Happy Birthday!" and a voice message containing the voices of your entire family sending their warm greetings.

Nurturing Entrepreneurship

To complement its innovations in remittance services, the PLDT Group is participating in various programs aimed at helping overseas Filipinos and their families make smarter use of their monies being sent back to the country.

In 2006, Smart launched a program encouraging Filipinos working abroad to set up small businesses at home. The company jumpstarted this program by cooperating with a Philippine government campaign promoting entrepreneurship among Filipinos overseas.

In a business forum in Taiwan where about 130,000 Filipinos reside, officials of the labor department and Smart met for two days with Filipinos there to discuss investment opportunities in agribusiness, aquaculture, franchising, and telecom services. Smart in particular showed how returning Filipinos can set up small businesses by selling airtime load as *Smart Load* agents, setting up *SmartBro Internet Cafés* or serving as *Smart Padala* encashment centers.

The entrepreneurship program is part of a general campaign of Smart dubbed "*Smart Pinoy*." Under this umbrella, Smart has gathered its services and programs that address the various needs of overseas Filipinos. These include *Smart IDD*, *international text* and *MMS*, *International Roaming Service*, *Smart Padala* and *Smart Load*. It's the Smart way of serving the *Global Pinoy*.



Building businesses for MICRO ENTREPRENEURS

RJ Villena was only 17 years old and an engineering sophomore at a state university in Metro Manila when he started his “business.” Armed with Php300 and a Nokia 3210 given by his father, he started selling *Smart Load*.

Like most of the 50,000 students at the Polytechnic University of the Philippines (PUP), RJ came from a family with humble means. Despite the subsidized tuition fee of Php500 per semester, it was still difficult to make ends meet. With his *Smart Load* business, he was able to support himself and help his parents financially. “I also had extra to buy clothes,” he added.

When she returned home after several years of working abroad, Elisa Sumaylo of Pasig City wanted to invest her savings in a small business. For a start, she set up a “*mami*” (noodle) stall.

Then she learned about PLDT *myDSL*'s *ICafé Plus* through which one can put up an Internet café as a small business. She started out with five PCs and now has 12 units for rent. Her Internet café sits side by side her “*mami*” stall, separated only by a sliding door.

Alternative Income

Both PLDT and Smart have not only made a difference in the way Filipinos communicate. Through its various packages designed for micro-entrepreneurs—students, OFW families and aspiring entrepreneurs—PLDT and Smart are also offering Filipinos alternative sources of income.

These packages range in scale from micro-enterprise to small business to franchise medium-scale enterprise.

The *PLDT myDSL ICafé Plus*, for example, addresses the needs of those who want to set up a small business. It is the first low-cost Internet café franchise in the country. Packages start at a low of Php200,000 for a minimum of five desktop computers, which are already networked for online gaming and Internet surfing. The package includes a Microsoft OS, software and online games, a billing system, merchandising materials, franchise training, after sales support and maintenance, as well as additional sources of revenue such as *Smart Load* and e-learning.

“Through *PLDT myDSL ICafé Plus*, many Filipinos may not need to seek jobs in other countries because they can become entrepreneurs here,” said PLDT Retail Business Group Head Menardo G. Jimenez, Jr.



Smaller in scale but far more numerous are the micro-entrepreneurs selling *Smart Load*. Launched in May 2003, *Smart Load* enables prepaid subscribers to purchase top ups electronically, over-the-air, in “sachets” or micro-denominations of Php30, Php60, and Php115. The retailers use special SIMs on their cell phones to transfer loads to buyers.

There are currently over 800,000 *Smart Load* retailers nationwide.

Smart has complemented the *Smart Load* business package with its own Internet café package using its wireless broadband service, *SmartBro*. Compared to the *PLDT myDSL* version, the *SmartBro* offer is a smaller package consisting of one to three PCs.

Through these initiatives, PLDT and Smart, in partnership with small and micro- entrepreneurs, are performing a vital service by providing more Filipinos, even those in remote towns and barangays, affordable Internet access.

In the mountains of Cordillera...

Up north in Sagada, Mountain Province, a tourist haven on Cordillera mountain known for its remote caves, a 10-year-old roadside *carinderia* (eatery) prominently displays *Smart Load* posters along with its delicacies. Its owner, Cordilleran Harbeth Dapuyan, is not only famous for her native specialty pinikpikan, but also for her thriving *Smart Load* business.

Harbeth recently set up her own *SmartBro* Computer Station. A greenhorn in the use of Internet and the computer, she started learning from her sister and from customers who were using her *SmartBro* Computer Station.

... to the Bondoc Peninsula

The Bondoc Peninsula in Quezon province got its first taste of the Internet when Smart opened a mobile Internet café in the town of Catanauan. A third-class municipality in the southernmost part of Quezon province, the nearest Internet café in Catanauan is three hours away, in Lucena City.

Called *Smart Click*, the mobile Internet café is housed in a 40-foot air-conditioned container van, equipped with 15 rentable computers. (It can also be installed in a small commercial space.)

Town Mayor Sebastian Serrano said that with high-speed Internet connection, they will be able to update the town’s website more often. “I hope we can really develop our homepage and eventually make Catanauan known to more people all over the Philippines and the world.”

Smart Click serves as a one-stop digital shop in places with limited or no provisions for high-speed Internet and other related computer and desktop publishing services that include sending, printing and scanning of documents and photos, saving documents in CDs, among others. Internet connectivity is provided via *SmartBro*.

Under this scheme, entrepreneurs in the provinces have an opportunity to set up a medium-sized business through a franchise. Though the total equipment costs can reach up to Php2.0 million, the initial outlay of a *Smart Click* franchise holder is in the range of Php200,000 to Php300,000 only.

Smart started the roll out of *Smart Click* branches in April 2006 in Ayala, Zamboanga. It now has 25 branches mostly located in the countryside and operated by franchisees nationwide.

CSR

corporate social responsibility



Enabling Communities

Whether it was bringing the Internet to a public high school in the remote island of Bantayan, Cebu, or completing a *Gawad Kalinga* village in the former rebel enclave in Camp Abubakar, Maguindanao, PLDT, Smart and the PLDT-Smart Foundation have taken the innovative path in “giving back” to the communities that the Group serves.

Broadbanding Education

In 2006, Smart expanded its *Smart Schools Program* to cover 100 public high schools nationwide—from as far as Basco, Batanes, in the north to Bongao, Tawi-Tawi in the south. Through this program, Smart provides broadband Internet connections for these schools and trains teachers on how to use computers and the Internet as learning resources. So far, over 5,000 teachers have received basic computer literacy training.

Meantime, PLDT revved up its Infoteach Outreach Program, which gives free basic computer training to students and teachers. PLDT partnered with the Asian College of Science and Technology (ACSAT) and ePLDT subsidiary, Digital Paradise, Inc., so that ACSAT instructors could hold training sessions in *Netopia Internet Cafés* near the participating schools. In 2006, 814 students and teachers from 33 schools nationwide attended the free seminars.

The *Smart Wireless Engineering Education Program (SWEET)*, meanwhile, has set up wireless laboratories for electronics and communications engineering (ECE) students in 40 colleges and universities nationwide. Over 4,000 faculty and students have gone through various training programs of *SWEET* since its launch in March 2003.

SWEET also successfully staged its 2nd Innovation and Excellence Awards which is designed to encourage ECE students and faculty to come up with innovative wireless applications designed to assist schools and communities.

Complementing this is PLDT's *Innovation Laboratory (Innolab)* in Manila and Cebu, which provides students and faculty facilities to conduct research on new communications technologies. Some universities such as the Ateneo de Manila have set up research programs that tap the technical resources of *Innolab*.

The PLDT-Smart Foundation, through the MVP Academic Excellence Awards and PLDT Foundation Employees Educational Grant, also granted scholarships to deserving children of rank and file and supervisory employees.

It is currently working on five major initiatives: a program for juvenile delinquents; disaster management; microfinance for the poor; sports development; and *Gabay Guro* (Teacher Guide), a technology skills development program for teachers together with the PLDT Managers' Club, Inc.

Enabling Communities—from Beneficiary to Benefactor

PLDT, Smart and the PLDT-Smart Foundation continued to be active partners of the *Gawad Kalinga* (GK) Foundation, a non-government organization with a grand vision—to help eradicate poverty in the Philippines by building 700,000 homes in 7,000 communities in seven years or by 2010.

Since the partnership started in 2004, PLDT, Smart and the PLDT-Smart Foundation have adopted seven PLDT-Smart Amazing GK Villages nationwide, each with 100 houses and a community center.

The beneficiaries—mostly farmers and fishermen of Brgy. Banglos—were trained to become wood sculptors. Now organized as a cooperative, the Banglos Sculptors have staged several successful exhibits of their works—fashioned from logs that destroyed their homes in the floods of December 2004. Over the past two years, they have sold well over Php1 million worth of artworks.

The Banglos Sculptors now regularly donate a portion of their sales to a village fund. They have also contributed to the livelihood programs of the other PLDT-Smart Amazing GK Villages such as the one in Bgy. Budlaan, Cebu City. The group has started to train residents in the art of woodcarving using driftwood.

Residents of the PLDT-Smart Amazing GK Village in Cebu, meanwhile, have learned how to make designer bags using strips of newspaper weaved together, painted with unique designs and lively colors. The group who attended the training will then teach their fellow residents the skill they have acquired.

In the PLDT-Smart Amazing GK Village-Iloilo, the women have attended dressmaking lessons while the men have taken carpentry and electrical lessons at the Western Visayas College of Science and Technology, a *SWEEP* partner school. In the Baseco Compound,



Testing donated computers in Catmon.



Distributing free medicines in Cagayan.



Helping victims of typhoon Reming.



Providing basic necessities to typhoon victims in Bicol.

On top of funding the construction of GK villages, the Group has also mobilized volunteer employees to help build homes. Since 2004, more than 1,000 PLDT and Smart employees in Metro Manila, South Luzon, Iloilo, and Cebu have worked alongside beneficiaries—pouring cement, shoveling, digging foundations, putting up hollow blocks, painting—in the PLDT-Smart Amazing GK Villages in Baseco, General Nakar, Cebu and Iloilo.

In 2006, the Group devoted more efforts to helping GK villages develop alternative sources of livelihood. The Smart Amazing GK Village in General Nakar, for example, has been cited by the GK Foundation as a model GK village chiefly because of its novel livelihood program.

residents have attended urban gardening lessons. Cabinet-making lessons using palo tsina are also being planned.

Grassroots Entrepreneurship

In 2006, PLDT promoted entrepreneurship not only through its community service programs but also through its regular sales efforts.

Both *PLDT myDSL* and *SmartBro*, the broadband services of PLDT and Smart, started to offer in 2006 business packages that provide personal computers and internet connectivity for setting up small Internet cafés. These packages were initially offered to existing

dealers of Smart and PLDT products and services, who now number over 800,000 all over the country.

PLDT continued to conduct livelihood seminars through the *PLDT Livelihood Program-Parents Teachers and Community Association; Pangkabuhayang Likas, Dunong at Talento; Kaanak at Kaibigan Kabuhayan (KKK) Program* and *Smart Entrepreneurship Program (SEP)*.

PLDT's *Pangkabuhayang Likas, Dunong at Talento*, launched in 2005, provides a five-day training program on cellular phone repair, the *Smart Load* business, and basic cosmetology. The *KKK Program*, meanwhile, gives relatives and friends of PLDT employees the opportunity to earn commissions from selling PLDT's products and services.

Launched in July 2004, *SEP* offers free seminars on entrepreneurship to college students and alumni of universities and colleges nationwide. In 2006, it was reoriented to support the offering of *SmartBro* Internet Café packages.

Support in Times of Emergency

PLDT and Smart set up free call and Internet stations for residents, media organizations, and rescue agencies

batingaws or warning bells made from recycled oxygen tanks to warn residents in the event of flashfloods, volcano eruptions or other calamities.

Smart donated over 200 *batingaws* which were installed in the municipalities of Real, General Nakar and Infanta in Quezon province; the towns around Mt. Bulusan in Sorsogon; and the provinces of Leyte, Surigao del Norte and Surigao del Sur. These were done in partnership with the Philippine Institute of Volcanology and Seismology, provincial governments, and the Save the Children Foundation.

Medical and Dental Missions

As part of its community service programs, PLDT continued to conduct medical and dental missions in remote areas lacking medical and health facilities. In 2006, such missions brought doctors to seven barangays, benefiting more than 3,000 individuals.

In 2006, PLDT Medical and Dental Mission teams were dispatched to Sta. Ana, Cagayan province; Bontoc, Mountain Province; Baguio City; and Benguet province in north Luzon; Biñan and Cabuyao towns in Laguna province in south Luzon; and Catmon Elementary School in Malabon, Metro Manila.



Tree planting in Gen. Nakar, Quezon.

Making works of art from driftwood.

Earning a living through sculpture in Gen. Nakar, Quezon.

in the areas battered by typhoons *Paeng*, *Milenyo* and *Reming*. After a mudslide buried one barangay in Guinsaugon, Southern Leyte, Smart set up a *Libreng Tawag Station* at the municipal hall of St. Bernard, offering free calls and broadband Internet access. When Filipinos were repatriated from war-torn Lebanon, PLDT and Smart also set up free calling stations at the offices of the Overseas Workers Welfare Administration.

Aside from disaster response activities, the PLDT Group was also involved in disaster preparedness programs in partnership with government and private agencies. Smart set up emergency warning systems in several calamity-prone municipalities in 2006. The community-based early warning systems combined radios and cellular phones with traditional tools such as

Employees also raised funds for cervical cancer patients, typhoon victims, children with harelip, old people in nursing homes, persons with disabilities, street children, among others. In several cases, PLDT and Smart matched the employees' donations.

PLDT and Smart continued their involvement in various tree planting projects. Trees were planted on the slopes of Mt. Pagturao in Bontoc, Mountain Province in the north, the banks of Marikina River and the La Mesa watershed in Metro Manila, and Mt. Abong-Abong Park in Zamboanga in the south – with over 11,000 seedlings and 31,000 propagules planted in 20 sites.



Take the lead.

Guide others.

Earn trust.

Set the standard.

Corporate Governance: A Way of Life

In 2006, significant progress was made in establishing good corporate governance policies and practices in the PLDT Group.

Commitment to Good Corporate Governance

It starts with me. The Chairman of the Board proclaimed it, and every employee now repeats the same line. Good corporate governance in PLDT goes beyond slogans and certification reports. It is a way of corporate life to be embedded in all business processes.

Such commitment started with the Board itself. To show its dedication to corporate governance and its faithfulness to its fiduciary, legal and ethical duties, the following amendments to the Board structure were accomplished:

- The post of Chairman was separated from the President/CEO.
- The Board Committees on Audit, Executive Compensation, Governance and Nomination (GNC), Finance, and Advisory were created. Corollary to this was the adoption of respective Committee Charters for Audit, Executive Compensation, GNC and Finance.
- The number of Independent Directors was increased to more than the minimum number required by Philippine regulators.

These early initiatives were richly advanced in 2006.

Board Self-Assessment of Performance

In the early part of the year, the Board approved an annual performance evaluation process to determine whether it, its committees and its members are functioning effectively. Each member of the Board underwent the process of a Board/Directors' Self Assessment Questionnaire Accomplishment. The recommendations, which included the creation and operation of an IT Strategy/Technology Committee, are to be carried out in the 2007 work program.

Adoption of Corporate Governance Policies

Similarly, in the first months of 2006, the Board approved the adoption of supplementary corporate governance policies

in addition to the fundamental corporate governance rules implemented in preceding years such as the PLDT Manual on Corporate Governance¹, Code of Business Conduct and Ethics², and Conflict of Interest Policy.

The Company now observes the following:

- *Policy on Gifts, Entertainment and Sponsored Travel* – approved on January 31, 2006.
- *Supplier/Contractor Relations Policy* – approved on January 31, 2006.
- *Administrative Order on the Handling of Employee Disclosures and Complaints Regarding Violations of the Corporate Governance Rules, Questionable Accounting or Auditing Matters, and Offenses covered by the Company's Table of Penalties (Expanded Whistleblowing Policy)* – approved on May 9, 2006.

In addition, the structures and rules on Officer Discipline were created by virtue of an Administrative Order on May 9, 2006.

Compliance and Regulation

Due to its ownership structure and its simultaneous listing in the New York Stock Exchange (NYSE), the Company is governed by several corporate governance regulations including that of the Philippine Securities and Exchange Commission (PSEC)/Philippine Stock Exchange (PSE) and the New York Stock Exchange.

Philippine Code of Corporate Governance. In the Philippines, the Company submitted the Annual Evaluation by the President/CEO, Treasurer and Chief Financial Officer and SVP-Chief Governance Officer of the Company's compliance with the Manual on Corporate Governance (for 2005), and the Certification by the Chief Governance Officer to the PSEC and PSE on January 27 and 30, 2006, respectively.

¹ This can be viewed at http://www.pldt.com.ph/download/pldt-corpgov_manual.pdf or http://www.pldt.com.ph/cgov/downloads/pldt-corpgov_manual.pdf.

² This can be viewed at http://www.pldt.com.ph/download/pldt-code_ethics.pdf or [http://www.pldt.com.ph/cgov/downloads/Code%20of%20Ethics\(BD_APPRVD\)-03.30.04.pdf](http://www.pldt.com.ph/cgov/downloads/Code%20of%20Ethics(BD_APPRVD)-03.30.04.pdf).

Upon conducting the aforementioned Annual Evaluation for 2006, the Certification by the Chief Governance Officer of the Company's compliance with the Manual on Corporate Governance was filed with the PSEC and PSE on January 24 and 26, 2007, respectively.

U.S. Sarbanes-Oxley Act (SOX). The Company has an ongoing Sarbanes-Oxley Act Compliance Project. Under this Project, the following has been accomplished in 2006:

Development and implementation of the Corporate Governance (CG) Communication Plan, which aimed to inform all employees on the CG rules and policies, and enable their deepened understanding of such through the following:

- Company-wide orientation training was conducted;
- Corporate governance content on the corporate website and intranet has been made available and accessible through the corporate governance sub-site: www.pldt.com.ph/cgov;
- CG Posters for 2006 carried the theme "Tread the Right Path (*Tahakin*)" featuring the four CG principles: Accountability, Integrity, Fairness and Transparency; and
- The CG e-newsletter, "Ripples," has been distributed monthly through e-mail broadcast since August. All issues are also available on the website.

Accomplishment of the Management's Self-Assessment and Sub-Certification as support to the annual internal control report that must be certified by the CEO and CFO starting 2006.

Installation and operation of the Expanded Whistle Blowing (EWB) Hotline and other reporting facilities, such as dedicated electronic mail box, post office box, and facsimile transmission.

Hongkong Stock Exchange (HKEx). First Pacific Company Limited (FPC) is listed under the HKEx. The Company, being a material affiliate of FPC also complies with HK governance requirements. In 2006, the evaluation of the effectiveness of the Company's internal control and risk management system was done and reported to FPC in compliance with HKEx requirements.

Moving Beyond Compliance

Adoption of CG among significant PLDT Subsidiaries.

PLDT Subsidiaries Smart, ePLDT and PLDT Global Corporation have each adopted their Code of Business Conduct and Ethics, and CG rules, and appointed their respective Corporate Governance Officers. Details of Related Party Transactions within the PLDT Group are contained in the Financial Report section.

Membership in the Ethics and Compliance Officer Association (ECO). PLDT is the first Philippine company to be a member of the largest international association of corporate ethics and compliance officers. The Company's Chief Governance Officer has been elected as one of the Directors of the Association, with his term starting in 2007.

Enterprise Risk Management

Our group-wide enterprise risk management framework, which became effective on April 1, 2006, has enhanced our existing risk management approach by establishing an Enterprise Risk Management Committee (ERMC). Under the framework, risks are identified, measured and responded to in a manner consistent with the best interests of the PLDT Group. The degree of response to risks shall be based on the likelihood of occurrence and the potential financial and operational impact as compared to the cost and potential consequences of the planned response. Every company or unit and every officer and executive are responsible for the identification and management of risks pertaining to their respective areas of responsibility.

The ERMC acts as the monitoring body for the individual risk management activities of the different units within the PLDT Group. As the strategic body responsible for developing and managing a comprehensive integrated risk management plan, the ERMC has the responsibility of responding to externally imposed regulatory guidelines concerning risk identification, disclosure, management, and monitoring. The ERMC is also mandated to advise the appropriate authorities of the PLDT Group on risk concerns pertaining to any of the companies within the PLDT Group.

In 2006, the ERMC conducted its annual internal and external risk assessment and validation activity involving the business and support units within the PLDT Group. Major risk concerns and appropriate mitigating measures were accordingly presented to the Executive Committee and to the Audit Committee, and eventually to the PLDT Board during the annual budget presentation.

Towards Embedding

The CG framework of PLDT involves three development phases: Compliance, Competency, and Character/Culture. Now that compliance structures and facilities are in place, the Company is focused on building competencies and commitment among its personnel so that ethical values and practices become embedded and ingrained within the Company. The end-view is the emergence of a strong ethical corporate character distinctly PLDT.

For 2007, the battle cry of corporate governance in PLDT is "embedding."

The CG posters that are being periodically released in 2007 take on ethical leadership as a theme – also annotating the movement from learning the CG principles in 2006 to translating these into action by 2007. Approved by a series of focus group discussions with the executives and staff in 2006, the 2007 posters are also known as the "fish series" following an observed behavior of schools of fish. True to the words first pronounced by the Chairman, PLDT corporate governance starts with any personnel who by his own right can be the leader in doing business ethically and legally well.

theboard

OF DIRECTORS



PANGILINAN



NAZARENO

DEE



ESPINOSA



KONO



KAWASHIMA



NEBRES

BOARD OF DIRECTORS

Manuel V. Pangilinan, *Chairman of the Board*

Napoleon L. Nazareno, *President and CEO*

Helen Y. Dee

Ray C. Espinosa

Tsuyoshi Kawashima

Tatsu Kono

Rev. Fr. Bienvenido F. Nebres, S.J.*

Corazon S. de la Paz

Ma. Lourdes C. Rausa-Chan¹

Oscar S. Reyes*

Albert F. Del Rosario

Pedro E. Roxas*

Alfred V. Ty*

¹ Elected March 6, 2007

* Independent Director



DE LA PAZ



RAUSA-CHAN



REYES



DEL ROSARIO



ROXAS



TY



BAGATSING



ROMULO



SANTOSO



YOUNG



ZARATE

Advisory Board/Committee

Amado S. Bagatsing
Roberto R. Romulo
Benny S. Santoso
Christopher H. Young
Ricardo R. Zarate

Audit Committee

Rev. Fr. Bienvenido F. Nebres, S.J., Chairman
Oscar S. Reyes, Member
Pedro E. Roxas, Member
Corazon S. de la Paz, Advisor
Roberto R. Romulo, Advisor
Tsuyoshi Kawashima, Advisor
Tatsu Kono, Advisor

Governance and Nomination Committee

Manuel V. Pangilinan, Chairman
Tatsu Kono, Member
Rev. Fr. Bienvenido F. Nebres, S.J., Member
Oscar S. Reyes, Member
Alfred V. Ty, Member
Rene G. Bañez, Non-voting Member
Victorico P. Vargas, Non-voting Member

Executive Compensation Committee

Albert F. del Rosario, Chairman
Oscar S. Reyes, Member
Pedro E. Roxas, Member
Alfred V. Ty, Member
Tsuyoshi Kawashima, Member
Victorico P. Vargas, Non-voting Member

Finance Committee

Corazon S. de la Paz, Chairman
Alfred V. Ty, Member
Amado S. Bagatsing, Member
Christopher H. Young, Member
Tsuyoshi Kawashima, Advisor
Tatsu Kono, Advisor

officers

Napoleon L. Nazareno
President and CEO

Ernesto R. Alberto
Senior Vice President

René G. Bañez
Senior Vice President

Anabelle L. Chua
Senior Vice President

Jun R. Florencio
Senior Vice President

Menardo G. Jimenez Jr.
Senior Vice President

George N. Lim
Senior Vice President

Rosalie R. Montenegro
Senior Vice President

Alfredo S. Panlilio
Senior Vice President

Claro Carmelo P. Ramirez
Senior Vice President

Ma. Lourdes C. Rausa-Chan
Senior Vice President

Victorico P. Vargas
Senior Vice President

Alfredo B. Carrera
First Vice President

Celso T. Dimarucut
First Vice President

Cesar M. Enriquez
First Vice President

Richard N. Ferrer
First Vice President

Eriberto B. Gesalta
First Vice President

Florentino D. Mabasa, Jr.
First Vice President

Ramon Alger P. Obias
First Vice President

Leo I. Posadas¹
First Vice President

Nerissa S. Ramos
First Vice President

Raymond S. Relucio
First Vice President

Ramon B. Rivera, Jr.
First Vice President

Ricardo M. Sison
First Vice President

Emiliano R. Tanchico
First Vice President

Miguela F. Villanueva
First Vice President

Jose A. Apelo
Vice President



PLDT Senior Executives (from left): Eriberto B. Gesalta, Miguela F. Villanueva, Victorico P. Vargas, Florentino D. Mabasa, Jr., Christopher H. Young, Ma. Lourdes C. Rausa-Chan, René G. Bañez, Anabelle L. Chua, Jun R. Florencio, George N. Lim, Nerissa S. Ramos, Ramon Alger P. Obias



Smart Executive Committee (from left): Rogelio V. Quevedo, Danilo J. Mojica, Don J. Rae, Anabelle L. Chua, Rolando G. Peña, Ramon S. Fernandez, Claro Carmelo P. Ramirez

Anna Isabel V. Bengzon
Vice President

Arnel S. Crisostomo
Vice President

Rebecca Jeanine R. De Guzman
Vice President

Mario C. Encarnacion
Vice President

Alejandro C. Fabian
Vice President

June Cheryl C. Furigay
Vice President

Elisa B. Gesalta
Vice President

Ma. Josefina T. Gorres
Vice President

Ma. Criselda B. Guhit
Vice President

Emeraldo L. Hernandez
Vice President

Joseph Nelson M. Ladaban
Vice President

Ma. Luz Natividad A. Lim
Vice President

Emmanuel B. Ocumen
Vice President

Oliver Carlos G. Odulio²
Vice President

Roberto G. Pador
Vice President

Lilibeth F. Pasa
Vice President

Enrique S. Pascual, Jr.
Vice President

Jose Lauro G. Pelayo
Vice President

Gerardo C. Peña
Vice President

Ricardo C. Rodriguez
Vice President

Genaro C. Sanchez
Vice President

Ana Maria A. Sotto²
Vice President

Julieta S. Tañeca²
Vice President

Jesus M. Tañedo
Vice President

Jose Antonio T. Valdez
Vice President

Melissa V. Vergel De Dios²
Vice President

¹ Promoted to First Vice President effective March 6, 2007.

² Promoted to Vice President effective March 6, 2007.



PLDT Senior Executives (from left): Cesar M. Enriquez, Emiliano R. Tanchico, Raymond S. Relucio, Claro Carmelo P. Ramirez, Alfredo S. Panlilio, Ernesto R. Alberto, Richard N. Ferrer, Rosalie R. Montenegro, Menardo G. Jimenez, Jr., Ramon B. Rivera, Jr., Ricardo M. Sison, Alfredo B. Carrera



ePLDT Executive Committee (from left): Celso T. Dimarucut, George H. Tan, Helen T. Marquez, Ray C. Espinosa, Rosalie R. Montenegro, Ernest L. Cu

2006 PLDT Group Significant Events

OPERATIONAL MILESTONES

FIXED LINE

PLDT *WeRoam* introduces a prepaid option and bundled laptops (Lenovo, HP, Acer, among others) on easy payment schemes in partnership with PC vendors across the country. With this *WeRoam* prepaid offering, more and more enterprises can now equip their road warriors with mobile productivity tool without worrying about their budget.

PLDT introduces *Shops.work Unplugged (SWUP)* the country's first wireless Virtual Private Network (VPN) connection for retailers' Point-of-Sale (POS) terminals, banks' ATM machines for back-up or remote connections, and merchants' wireless swipe card terminals.

PLDT offers *PLDT WeRoam Plus*, which now offers higher speeds through the use of the unmatched 3G/HSDPA coverage of Smart. With 3G/HSDPA base stations complementing PLDT *WeRoam's* nationwide GPRS/EDGE and *WiFi* network, laptop-carrying individuals may now enjoy broadband speeds to access their private LAN or the Internet in more parts of the archipelago.

The PLDT Domestic Fiber Optic Network (DFON) Baguio Loop becomes operational, providing Baguio City its first fiber optic cable transport connectivity. The DFON in Baguio has a capacity of 10 gigabit per second of transmission bandwidth that can accommodate 120,960 simultaneous calls at any given time – more than enough to support the city's increasing demand for higher-capacity voice, data, and video services.

PLDT launches its new world-class fiber optic network called the PLDT Next Generation Network (PLDT NxGN). With this new technology, PLDT NxGN subscribers can now enjoy unprecedented broadband Internet speed and allow for faster provisioning, installation and repairs of voice, wireless and data networks. PLDT NxGN also paves the way for future services such as Broadband TV and Internet Protocol Voice Services, among others.

Pwede! Card, the country's first PIN-based reloadable all-in-one card is launched to address the ever changing communication needs of Filipinos. *Pwede! Card* can do both voice (i.e., local calls, NDD, IDD and cellular) and data (dial-up Internet) from any PLDT or Smart access device, whether it be PLDT postpaid or prepaid landlines, Smart or *Talk 'N Text* cellular phones or PLDT and Smart payphones.

PLDT offers *PLDT myDSL Biz Internet Café Plus*—the first low cost Internet café franchise solution in the country, selling for only Php35,000 per PC. It specializes

in setting up five and above computers for an Internet café, selling load and E-Review cards to help students review for courses like college entrance and nursing exams.

WIRELESS

Smart introduces Smart 3G/HSDPA to offer not only local and international video calling, but also content that includes real-time video streaming of TV shows and downloads of movie trailers, music videos, animé, vacation spots and real-time traffic videos in major thoroughfares in key cities.

Smart Click Internet Café and more is launched in Basco, Batanes. Smart Click serves as a neighborhood one-stop digital shop in places with limited or no provisions for high-speed Internet and other related computer and desktop publishing services.

Smart unveils *SmartBro*, the new brand for Smart's wireless broadband offering, marking a move from its earlier *Smart WiFi* brand. The launch of *SmartBro* underscores the strategy of the PLDT group to provide its customers with the widest range of broadband connectivity solutions and establish its leadership in the broadband market nationwide.

ICT

ePLDT completes its acquisition of SPi, a leading business process outsourcing company, for US\$158.8 million inclusive of debt. The acquisition is considered a strategic move that will place the PLDT Group at the forefront of the fast growing BPO industry.

SPi acquires Cymed for US\$35 million. Acquisition positions SPi as the third largest company in the US medical transcription (MT) industry. CyMed provides MT services for more than 400 healthcare systems across 49 states (all but Alaska) and has been recognized by numerous industry and community associations for business operations and profitable growth.

ePLDT announces its majority acquisition of Level Up! (Philippines), Inc. (Level Up!). This facilitates the merger of the two leading online game publishers in the country, Level Up! and netGames, Inc. thus forging the dominance of the Philippine online gaming market.

ePLDT *Ventus Libertad* commence commercial operations in Libertad, Mandaluyong City, thus, bringing total call center site count to seven and total seat count to 5,600.

CORPORATE AFFAIRS

Total dividend payments for 2006 increased by 53% to Php18.8 billion from Php12.3 billion in 2005.

AWARDS AND RECOGNITION

FinanceAsia, a leading finance magazine in Asia, awards PLDT as the "Best-Managed Company" in the country for the third straight year. It also awarded PLDT for being the "Best in Investor Relations" for the fifth consecutive year.

Telecom Asia, a regional industry publication, recognizes PLDT as the Best Emerging Market Carrier for the second straight year.

Asiamoney, another leading finance magazine, ranks PLDT No. 1 among Asian telecom companies based on recently reported figures on return on equity. PLDT is the only Filipino company in the list. In the same issue, PLDT Chairman Manuel V. Pangilinan was recognized as one of the most powerful and influential people in the Asia Pacific for the year 2006. Pangilinan ranked 86th.

Forbes Asia, the regional arm of Forbes magazine, lists PLDT in the *Forbes Asia's Fabulous 50*, the magazine's second annual list representing Asia-Pacific's best publicly-traded companies with revenues and market capitalization of at least US\$5 billion. PLDT is the only Filipino company in the list.

Euromoney, an international finance magazine, cites PLDT as the "Best-Managed Company in Asia" in its 2006 polls. PLDT topped a field of 223 major Asian companies nominated by 49 financial institutions and analysts worldwide. Aside from that, PLDT was also recognized with four more best-in-category awards: Best Fixed Line Company in Asia, Best Cellular Company in Asia, Most Convincing and Coherent Strategy – Philippines, and Most Transparent Account in Asia.

The *Wall Street Journal Asia*, a respected regional newspaper, ranks PLDT No. 7 in the most admired list in its Asia 200 reader survey of companies in the Philippines. PLDT was also top 5 for long-term vision and top 5 for innovation. The Asia 200 is a list of the 200 most admired companies in Asia.

Netopia is awarded the 2005 Outstanding Filipino Franchise – Service Category by Philippine Franchise Association and Department of Trade and Industry during the Franchise Excellence Awards.

Smart Load becomes a finalist in the Stockholm Challenge 2006 under the Economic Development category in Stockholm, Sweden. *Smart Load* was recognized for having changed the way people top up, from the conventional reload cards to electronic, over-the-air, and for giving more than 800,000 micro-entrepreneurs a lucrative business. The Stockholm Challenge is a pioneer among ICT awards and networking organizations.

