

PHILIPPINE LONG DISTANCE TELEPHONE COMPANY

CORPORATE GOVERNANCE REPORT 2010



PLDT recognizes that corporate governance is a key element in its strategy to accomplish the Company's mission, create value for its shareholders and stakeholders, and sustain its long term viability. The Company's approach is to continuously improve its governance structures and processes on three levels: (1) compliance with the standards and requirements of laws and regulatory issuances and guidelines; (2) benchmarking against recognized international best practices and monitoring developments in corporate governance; and (3) fostering an ethical corporate culture guided by the principles of accountability, integrity, fairness and transparency.

PLDT conforms to the corporate governance laws, issuances, guidelines and standards of three (3) jurisdictions. PLDT is subject to Philippine corporate governance laws, issuances, guidelines and standards as established by the Philippine Securities and Exchange Commission (Philippine SEC) and the Philippine Stock Exchange (PSE). The Company is also subject to the standards set forth in U.S. Securities Exchange Act, the Sarbanes-Oxley Act of 2002 and the New York Stock Exchange (NYSE) Listed Company Manual. As an inves-

tee company of various Philippine and other affiliates of First Pacific Company Limited (First Pacific), PLDT likewise endeavours to conform with certain corporate governance guidelines of First Pacific which are based on the rules of the Hong Kong Stock Exchange in which First Pacific's shares are listed. The demanding regulatory regime under which PLDT operates has provided the impetus for PLDT to impose upon itself high standards of corporate governance and business conduct.

Our Governance Structures

Board of Directors

It is the Board of Directors which has the primary responsibility for ensuring principled business conduct in pursuit of promoting and protecting the interest of the Company, its stockholders, and all other stakeholders. The Board of Directors functions within the scope of its powers and authorities provided in applicable laws and the Company's By-Laws, and conducts itself in accordance with Company policies such as the PLDT Manual on Corporate Governance (CG Manual) and the PLDT Code of Business Conduct and Ethics (Code of Ethics).

The PLDT Board of Directors is composed of thirteen (13) members whose diverse skills and experiences serve to create the appropriate balance and mix of expertise matched by a commitment to the highest standards of corporate governance and business conduct. This commitment is manifested in the Board's independence from Management, as well as its undertaking to observe and adopt, whenever applicable, proven best practices, and to continuously improve the Board's and individual Directors' performance.

The positions of Chairman and CEO are held separately by two individuals, Mr. Manuel V. Pangilinan and Mr. Napoleon L. Nazareno, respectively. Each position has been given distinct and separate duties and responsibilities under PLDT's By-Laws and CG Manual.



PLDT Chairman, Manuel V. Pangilinan

Independent oversight by the PLDT Board over Management is enhanced through PLDT's independent directors and non-executive Directors. PLDT has four (4) duly-screened and qualified independent directors, namely: Rev. Fr. Bienvenido F. Nebres, SJ, Oscar S. Reyes, Mr. Pedro E. Roxas¹, and Mr. Alfred V. Ty. The number of PLDT's independent directors surpasses that required under local regulations of at least two (2) independent directors or twenty percent (20%)

of the entire board membership, whichever is lower. With the exception of Mr. Napoleon L. Nazareno and Mr. Ray C. Espinosa, all the members of the Board are non-executive Directors.

The Board commits itself to a process of self-improvement. In the past year, the Board continued its pioneering practice in the Philippines of conducting a periodic performance self-assessment. It is a process whereby the Board, through its individual members, assesses its collective performance as well as that of the individuals that comprise it and its committees. The Board utilizes a self-assessment tool developed with reference to the Philippine SEC's Revised Code of Corporate Governance and Self-Rating Form, PLDT's CG Manual and Code of Ethics, Sarbanes-Oxley Act, NYSE Listed Company Manual, the survey questions of the Institute of Corporate Directors (ICD), and established global best-practices. The assessment instrument includes an evaluation of the Board's structure, processes and responsibilities, as well as the performance of the Chief Executive Officer. Results of the assessment are used to develop strategies to strengthen and enhance, among others, PLDT's governance practices.

The Board undergoes training on corporate governance through annual corporate governance enhancement sessions. These sessions provide the Directors with an opportunity to interact with experts and stay abreast with key developments in corporate governance and business ethics that are of particular significance to the PLDT Group. All of the current Directors have undergone corporate governance training or have attended at least one enhancement session out of the four enhancement sessions conducted since 2007. In 2010, the PLDT Board of Directors also went

through a technology briefing in order to be fully updated on the latest trends and developments that have an impact on the Company's strategy and competitiveness.

Aside from its regular meetings to review the Company's financial results and operating performance, in 2010, the Board led and actively participated in the review of the PLDT Group's business strategy and in the assessment of new business opportunities and sources of growth, to ensure that the PLDT Group maintains its market leadership in the intensely competitive telecommunications industry. The Board also focused on strengthening enterprise risk management (ERM), placing this vital concern on more solid footing with the creation of the PLDT Group Enterprise Risk Management Department.

The Board also sees to it that all other aspects of corporate governance and responsibility are given proper emphasis and attention. It provides overall guidance to Management with respect to Corporate Social Responsibility (CSR) programs and directs efforts to devise and implement meaningful and authentic approaches to our corporate sharing, as well as ways and means to act responsibly in relation to the world's finite resources and fragile environment.

The Board had a total of twelve (12) meetings in 2010. The Chairman and five (5) other Directors attended all of the meetings and the remaining seven (7) Directors attended at least 75% of the said meetings.

The table below provides a summary of the attendance performance of the Directors.

	Jan. 26	Mar. 2	Mar. 26	May 13	Jun 8**	Jul 7	Aug 3	Aug 31	Sept 28	Nov 4	Dec 7	Dec 8***
Manuel V. Pangilinan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Napoleon L. Nazareno	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Donald G. Dee*	✓	✓	✓	✓	✓	✓	✓	✓		✓		
Helen Y. Dee	✓	✓	✓	✓		✓	✓	✓	✓	✓		
Albert F. Del Rosario	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ray C. Espinosa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tatsu Kono	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Bienvenido Nebres	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Takashi Ooi	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
Oscar S. Reyes	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Pedro E. Roxas	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Tony Tan Cak Tiong	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓
Alfred V. Ty	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓

* Mr. Dee resigned as a PLDT Director effective December 6, 2010

** The meeting on June 8, 2010 was also the date of the Annual Stockholders Meeting and the Organizational Meeting.

*** The meeting on December 8, 2010 was the only special meeting of the Board of Directors in 2010.

In 2010, the total amount of *per diem* provided for the Board of Directors (and the five members of the Advisory Committee) was Php 41,800,000. Each Director and member of the Advisory Committee is entitled to receive a *per diem* of Php 200,000 for each board meeting attended. Except for the *per diem*, Directors are not entitled to any other compensation from the Company.

Board Committees

The Board has an Advisory Committee which provides guidance and suggestions, as necessary, on matters deliberated upon during Board meetings.

To assist in the performance of the Board's responsibilities and aid in ensuring compliance with the principles of good corporate governance, the Board has established four (4) committees namely, the Audit Committee, the Governance and Nomination Committee, the Executive Compensation Committee and the Technology Strategy Committee (collectively, the "Board Committees").

The Board Committees have their respective charters that have been approved by the Board. The charters establish the composition, define the functions, set the general objectives and outline the procedures of the said Committees. In 2010, the Board approved the revisions, as recommended by the Board Committees, to their respective charters. Key amendments to these charters pertain to aligning each Board Committee's purposes to those set forth in the CG Manual.



Furthermore, sections in the CG Manual pertaining to the independence criteria for independent directors, qualifications for directorship, and grounds for disqualification from directorship, were incorporated as Annexes to the revised charters.

Audit Committee

In addition to the general amendments stated earlier, the AC Charter was also updated with respect to references to applicable

Independence Standards and Auditing Standards relating to the external auditor, including reports and communications required to be submitted by the latter.

The Audit Committee, or AC, is composed of three (3) independent directors, and three (3) advisors. Each of the members of the AC is financially literate and one of the advisors is a certified public accountant with financial management expertise. The primary purpose of the AC is to assist the Board in fulfilling its oversight responsibilities for: the integrity of the Company's accounting and financial reporting principles and policies, and system of internal controls, including the integrity of the Company's financial statements and the independent audit thereof; the Company's compliance with legal and regulatory requirements; the Company's assessment and management of enterprise risks including credit, market, liquidity, operational and legal risks; and the Company's audit process and the performance of the Company's internal audit organization and external auditor, including the external auditor's qualifications and independence.

The revised charter of the AC may be viewed and downloaded from the PLDT website through the following link: <http://www.pldt.com.ph/about/management/Documents/Audit%20Committee%20Charter.pdf>.

For the year 2010, the AC held six (6) regular meetings, four (4) special meetings and one (1) joint meeting with the Audit Committees of major subsidiaries, SMART and ePLDT.

The AC's activities with respect to the external auditor, SGV&Co., include discussing the results of their integrated audit of PLDT's 2009 financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS), and evaluation of internal controls over financial reporting. The AC also received the required communications from the external auditor including a statement as to its independence as required by prevailing applicable auditing and independence standards. The AC also discussed the external auditor's report on the results of the integrated audit of PLDT's 2008 financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The AC reviewed the external auditor's integrated plan for the audit of the 2010 financial statements and review of internal controls over financial reporting. The performance of the external auditor for the year 2009 was also evaluated by the AC. As a result of the evaluation, the AC resolved to re-appoint SGV&Co. as the external auditor for the year 2010 and noted that the lead audit partner primarily responsible for the audit of the Company's financial accounts has been performing such responsibility for less than five (5) years.

The AC also worked with the internal audit organization by reviewing and/ or approving the latter's charter, reports and plans such as the Internal Audit and Fraud Risk Manage-

ment Group's accomplishment report for 2009, the internal audit plan and updated internal audit plan for 2010, and periodic status reports regarding the PLDT Group's Sarbanes-Oxley Section 404 readiness and compliance as of year end 2010. Significantly, the AC discussed with auditing firm Punongbayan & Araullo the results of its external quality assessment review for the PLDT internal audit organization, where the internal audit organization attained the highest rating of "General Conformance" with the International Standards for the Professional Practice of Internal Auditing (ISPPA).

The AC was also involved in ensuring the integrity of financial reporting of PLDT and reviewed with the PLDT Finance Officers, internal auditors, and SGV&Co., the financial results and reports of SGV&Co., on its integrated audit of the 2009 financial statements in accordance with PFRS and IFRS, as well the financial results and reports for the first quarter of 2010, the six months ended June 30, 2010 and the nine months ended September 30, 2010.

Relative to governance, general internal controls and risk management, the AC reviewed and discussed the status of the Company's compliance with applicable laws and significant legal matters, the status of whistleblowing complaints and updates on the PLDT Group's enterprise risk management (ERM) processes and activities, including results of internal risk assessments and various ERM initiatives.

The table shows the number of meetings held by the AC and the individual attendance record of each member for the year 2010. For each AC meeting attended, a member/ advisor is entitled to a *per diem* of Php75,000. A total of P4,425,000.00 was paid as *per diem* to the members and advisors of the AC for the year 2010.

Audit Committee

Voting Members	11/11
Bienvenido F. Nebres (Chairman)	11/11
Pedro E. Roxas*	11/11
Oscar S. Reyes ²	8/8
Alfred V. Ty ^{*3}	2/2
Advisors	
Corazon S. Dela Paz—Bernardo	11/11
Tatsu Kono	9/11
Roberto Romulo	11/11

*Independent Director

Governance and Nomination Committee

The Governance and Nomination Committee, or GNC, is composed of five (5) voting members, three (3) of whom are independent directors and the other two (2) are non-executive directors. The GNC also has three (3) non-voting members composed of an independent member of the Advisory Committee, the Human Resources Group Head and the Chief Governance Officer of the Company. The primary purposes of the GNC are to: oversee the development and implementation of corporate governance principles and policies; review and evaluate the qualifications of the persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board; identify persons believed to be qualified to become members of the Board and/or the Board Committees; assist the Board in making an assessment of the Board's effectiveness in the process of replacing or appointing new members of the Board and/or Board Committees; and assist the Board in developing and implementing the Board's performance evaluation process.

The revised Charter of the GNC may be accessed and downloaded from the PLDT web-

site through the following link: <http://www.pldt.com.ph/about/management/Documents/Governance%20and%20Nomination%20Committee%20Charter.pdf>.

In the performance of its governance function, the GNC reviewed and assessed PLDT's CG Manual in light of the issuance of the Philippine SEC's Revised Code of Corporate Governance on June 2009 (which replaced the Code of Corporate Governance of 2002). The GNC also passed upon and approved the interpretation guidelines on the terms used in the independence criteria for independent directors in the said CG Manual. A mandatory periodic review of the Conflict of Interest Policy and the Code of Ethics was also performed by the GNC and the GNC determined that both policies remain to be adequate and compliant and required no amendments.

The GNC provided guidance or directives with respect to proposed corporate governance related rules and guidelines issued by regulators, as well as reports of corporate governance rating agencies and other organizations interested in corporate governance. It also gave valuable input in the development and implementation of the PLDT corporate governance education and communication activities.

With respect to the Board performance evaluation process, the GNC discussed, evaluated and submitted to the Board of Directors the consolidated results of the Board Performance Assessment for 2009 and provided assistance to the Board in initiating the Board performance assessment for 2010.

In the performance of its nomination function, the GNC screened persons nominated as directors or independent directors and determined, identified and recommended the final list of director/independent director nomi-

nees for election in the 2010 annual meeting of stockholders. In screening director nominees, the GNC takes into account the director nominee's ability to perform his roles diligently and efficiently and considers the director nominee's judgment, skill, experience with other business organizations of a size comparable to that of the Company, the interplay of a candidate's experience with the experience of other Directors, and possible conflict of interest.

The GNC also reviewed the composition of Board Committees and made the appropriate recommendations to ensure that the same are in conformity with applicable laws, rules and regulations. Furthermore, the GNC reviewed the list and qualifications of officers and recommended the re-appointment of said officers at the organizational meeting of the Board of Directors. It also reviewed and endorsed the recommendation of the Management Committee regarding the promotion of certain executives with the rank of Assistant Vice President to Vice President.

Governance and Nomination Committee

Voting Members	4/4
Manuel V. Pangilinan (Chairman)	4/4
Tatsu Kono	4/4
Bienvendo F. Nebres*	4/4
Oscar S. Reyes ⁴	4/4
Alfred V. Ty*	4/4
Non-voting members	
Artemio V. Panganiban	4/4
Ma. Lourdes C. Rausa-Chan	4/4
Victorico P. Vargas ⁵	3/3
Menardo G. Jimenez ⁶	1/1

*Independent Director

Summarized in the table are the number of meetings held by the GNC and the individual

attendance record of each member. For each GNC meeting attended, each member is entitled to a *per diem* of Php 75,000. A total of P2,400,000.00 was paid as *per diem* to the members of the GNC in 2010.

Executive Compensation Committee

The Executive Compensation Committee, or ECC, is composed of five (5) voting members, three (3) of whom are independent directors, and the other two (2) are non-executive Directors. The ECC also has (1) non-voting member, who is the Human Resources Group Head of the Company. The primary purposes of the ECC are to: provide guidance to and assist the Board in developing a compensation philosophy or policy consistent with the culture, strategy and control environment of the Company; oversee the development and administration of the Company's executive compensation programs, including long term incentive plans and equity based plans for officers and executives; and assist the Board in the performance evaluation of and succession planning for officers, including the CEO, and in overseeing the development and implementation of professional development programs for officers.

The revised Charter of the ECC may be viewed and downloaded from the PLDT website through the following link: <http://www.pldt.com.ph/about/management/Documents/Executive%20Compensation%20Committee%20Charter.pdf>

In 2010, the ECC discussed and approved the merit increases for officers and executives. It also passed upon the 2009 variable pay payout and the targets for the 2010 variable pay. It reviewed the PLDT Long Term Incentive Plan (LTIP) payout for the 2007-2009 performance cycle and discussed and recommended for Board approval the LTIP for the

2010-2012 performance cycle. The ECC also discussed or approved the subsidiaries and affiliates 2010-2012 LTIP sharing scheme.

Summarized in the table are the number of meetings held by the ECC and the individual attendance record of each member.

Executive Compensation Committee

Voting Members

Albert F. Del Rosario	6/6
Tatsu Kono	5/6
Oscar S. Reyes ⁷	6/6
Pedro E. Roxas *	6/6
Alfred V. Ty*	4/6

Non-Voting Members

Victorico P. Vargas ⁸	5/5
Menardo G. Jimenez, Jr. ⁹	1/1

*Independent Director

For each meeting attended, an ECC member is entitled to a *per diem* of P75,000. A total of P2,475,000.00 was paid as *per diem* to the members of the ECC in 2010.

Technology Strategy Committee

The Technology Strategy Committee, or TSC, is composed of five (5) voting members, one (1) of whom is an independent director and two (2) non-voting members. Under the revised TSC charter, at least one (1) member of the TSC must have at least a general knowledge or understanding any of the technologies relevant to the Company's line of business.

The primary purposes of the TSC is to assist and enable the Board to: review and approve the strategic vision for the role of technology in the Company's overall business strategy, including the technology strategy and roadmap of the Company; fulfill its oversight re-

sponsibilities for the Company's effective execution of its technology-related strategies; and ensure the optimized use and contribution of technology to the Company's business and strategic objectives and growth targets.

A copy of the revised Charter of the TSC may be viewed and downloaded from the PLDT website through the following link: <http://www.pldt.com.ph/about/management/Documents/Technology%20Strategy%20Committee%20Charter.pdf>

The TSC had one meeting in 2010 in which updates on the PLDT Technology Roadmap and proof of concept of the latest technologies were presented and discussed. The TSC also arranged a presentation to the PLDT Board about the technology initiatives being undertaken for both the fixed and wireless networks in support of the business, and developments in the Asia Pacific region with respect to telecommunications as well as technology evolution. Delta Partners has also been engaged to look at the PLDT Group's technological future for the purpose of studying options available in light of changing market and technology trends. This is part of the comprehensive review of the Company's business.

Technology Strategy Committee

Manuel V. Pangilinan (Chairman)	1/1
Ray C. Espinosa	1/1
Tatsu Kono	1/1
Napoleon L. Nazareno	0/1
Oscar S. Reyes ¹⁰	1/1
Non-voting members	
Manuel M. Lopez ¹¹	1/1
Orlando B. Veja	1/1

For each meeting attended, a TSC member is entitled to a *per diem* of Php 75,000. A total of P450,000.00 was given as *per diem* to the members of the TSC in 2010.

Chief Executive Officer

Under the overall guidance and oversight of the Board of Directors, the CEO is charged with the general care, management and administration of the business operations of the Company. He provides leadership for Management in developing and implementing business strategies, plans and budgets. More importantly, he ensures that the business and affairs of the Company are managed in a sound and prudent manner and operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts. The CEO also has the responsibility to provide the Board with a balanced and understandable account of the Company's performance, financial condition, results of operations and prospects, on a regular basis.

Independent Audit

The Company has an internal audit system which provides a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control, and governance processes.

The internal audit organization is led by the Chief Audit Officer/Internal Audit Head who functionally reports to the Audit Committee. It is responsible for conducting, in accordance with the International Standards for the Practice of Internal Auditing, internal audit activities which includes, among others, the evaluation of the adequacy and effectiveness of controls covering the Company's financial

reporting, governance, operations and enforcement systems, and the reliability and integrity of financial and operational information.



PLDT President and CEO Napoleon L. Nazareno

The Company also has an independent external auditor duly accredited by the Securities and Exchange Commission. Its duty is to undertake an independent audit and provide objective assurance on the manner by which the Company's financial statements have been prepared and presented.

The Audit Committee selects and appoints the external auditor and reviews and approves all audit and non-audit services to be performed by the external auditor and all fees to be paid for such services.

The external auditor or the lead audit partner primarily responsible for the audit of the Company's financial statements, is rotated at least once every five (5) years or such shorter or longer period provided under applicable laws and regulations.¹² In addition, PLDT's Personnel Manual generally prohibits the hiring of former employees of the Company's independent auditing firm or members of the audit team assigned to perform audit services for the Company.¹⁴

Chief Governance Officer

The corporate governance compliance system established in the CG Manual includes the designation by the Board of a Chief Governance Officer who reports to the Chairman of the Board and the Governance and Nomination Committee. The primary responsibilities of the Chief Governance Officer include monitoring compliance with the provisions and requirements of corporate governance laws, rules and regulations, reporting violations and recommending the imposition of disciplinary actions, and adopting measures to prevent the repetition of such violations.

In addition, the Chief Governance Officer assists the Board and the Governance and Nomination Committee in the performance of their governance functions, including their duties to oversee the formulation or review and implementation of the corporate governance structure and policies of the Company, the establishment of an evaluation system to verify and measure compliance with the CG Manual in relation to related laws, rules and regulations, and to oversee the conduct of a self-assessment of the performance and effectiveness of the Board, the Board Committees, and individual Board members in carrying out their functions.

Corporate Governance Office

The Chief Governance Officer is supported by a Corporate Governance Office (CGO). The CGO personnel are entrusted with overseeing PLDT's three E's of Corporate Governance: Engineering, Enforcement and Education. Engineering involves the continuing development, drafting, issuance and review of appropriate corporate governance-related policies to guide company personnel. Enforcement ensures compliance by company personnel with the corporate governance policies so

issued and enacted. Education rounds off the process by ensuring the development of the proper knowledge, skills, attitudes and habits that would promote voluntary observance of corporate governance policies and, more importantly, PLDT's four core values of accountability, integrity, fairness and transparency.

On January 27, 2011, the Chief Governance Officer submitted to the Philippine SEC and the PSE the Company's annual certification confirming that PLDT's CG Manual, as revised and adopted on March 26, 2010, conforms with the provisions of the Philippine Securities and Exchange Commission Memorandum No. 6, Series of 2009 (the Revised Code of Corporate Governance) as well as contains other leading practices and principles on good corporate governance. The Certification also states that in 2010 the Company did not deviate from the provisions of its previous CG Manual adopted on September 24, 2002, amended on March 30, 2004 and January 30, 2007 and in effect until March 25, 2010 and, thereafter, with the PLDT CG Manual, as revised, as well the provisions of the Revised Code of Corporate Governance as adopted in the PLDT CG Manual.

The said certification was based on the annual evaluation conducted by the Company's President and Chief Executive Officer, Treasurer and Chief Financial Officer and Chief Governance Officer of the Company's compliance with the CG Manual. In making such evaluation, said officers used the Board-approved corporate governance self-rating form which has been patterned after a similar form that was issued by the Philippine SEC under SEC Memorandum Circular No. 5, Series of 2003, dated April 3, 2003 which has been upgraded to include recent compliance requirements.

Through the CGO, PLDT has complied with SEC Memorandum Circular No. 12, Series of 2009, dated August 18, 2009, by accomplishing and submitting the 2010 Corporate Governance Scorecard for Publicly-listed Companies. The Company's 2010 Corporate Governance Scorecard was submitted to the ICD and the Philippine SEC on November 22, 2010. The fact of such submission was disclosed to the Philippine Stock Exchange on the same date. The Company has also submitted its report of compliance with PSE Memorandum No. 2010-0574 dated November 26, 2010.

Policies and Implementation

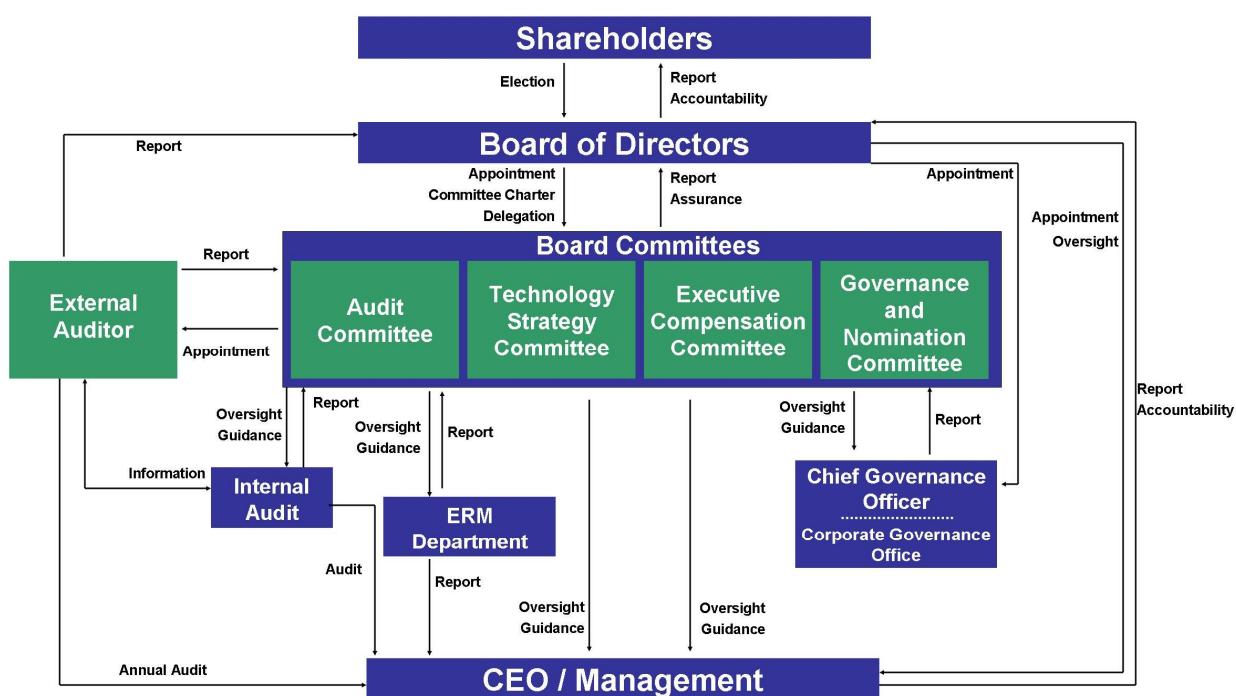
PLDT's corporate governance principles, structures and processes are established and articulated in two fundamental policies: The

CG Manual and the Code of Ethics. These policies are benchmarked against global best practices in corporate governance, yet are applicable and responsive to PLDT's particular context.

CG Manual

The PLDT Manual on Corporate Governance or, CG Manual, was approved and adopted by the Board of Directors on March 26, 2010 pursuant to SEC Memorandum Circular No. 6 Series of 2009 or the Revised Code of Corporate Governance. It supersedes the CG Manual approved and adopted on September 24, 2002, as amended on March 30, 2004 and January 30, 2007. The structures and processes set forth in the CG Manual, as well as the Articles of Incorporation and By-Laws, combined with the Company's commitment

The diagram presents the implementing structure for corporate governance in PLDT.



to the principles of transparency, accountability, fairness and integrity, form PLDT's basic framework of governance by which our Board of Directors, officers, executives and employees strive to achieve the Company's strategic objectives, create value for all its stakeholders, and sustain its long term viability.

In compliance with the Revised Code of Corporate Governance of the Philippine SEC and consistent with the relevant provisions of the Securities Regulation Code and Corporation Code of the Philippines, our CG Manual covers the following key areas:

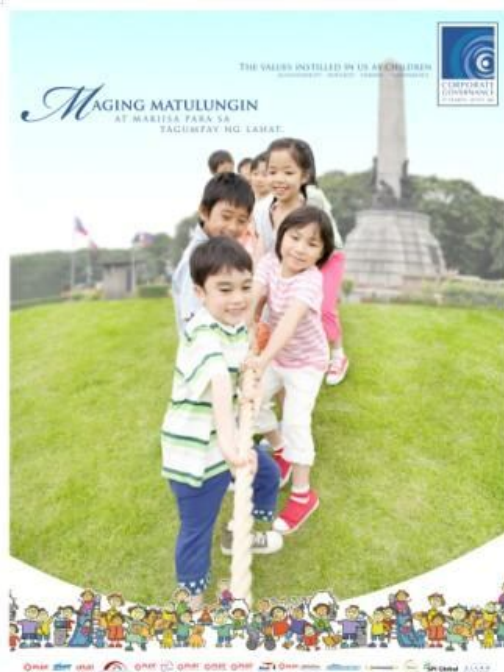
- The composition of our Board of Directors as well as the qualifications and grounds for disqualification for directorship;
- The requirement that at least twenty percent (20%) of the membership of the Board of Directors, and in no case less than two (2) members, must be independent directors, and the standards/criteria for the determination of independent directors;
- The duties and responsibilities of our board of directors and the individual directors;
- The manner of conduct of Board meetings including the requirement to have an independent director present in every meeting to promote transparency and the need to have an executive session for non-executive and independent directors;
- The establishment of board committees, specifically, the audit committee, executive

compensation committee and governance and nomination committee, including the composition and the principal duties and responsibilities of such committees, as well as the requirement for each board committee to have its own charter;

- The role of the Chairman as the leader of the Board and as the prime mover in ensuring compliance with, and the performance of, corporate governance policies and practices ;
- The role of the President/Chief Executive Officer in ensuring that the Company's business affairs are managed in a sound and prudent manner and that operational, financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts;
- The duties and responsibilities of the Corporate Secretary/Assistant Corporate Secretary in terms of the support services

that they need to provide the Board in upholding sound corporate governance;

- The duties and responsibilities of the head of internal audit organization that would provide the Board of Directors, management and shareholders with reasonable assurance that the Company's key organizational and procedural controls are appropriate, adequate, effective and reasonably complied with;
- The functions of the independent auditors that would reasonably ensure an environ-



ment of sound corporate governance as reflected in the Company's financial records and reports; the requirement that non-audit work of the independent auditors should not conflict with their function as independent auditors; the requirement to rotate, at least once every five years, the independent auditors or the lead partner assigned to handle the independent audit of financial statements;

- The requirement to appoint a Chief Governance Officer and the duties and responsibilities of such Chief Governance Officer including the establishment of an evaluation system to determine and measure compliance with the provisions of our Governance Manual;
- The requirement for the Board to explore and implement steps to reduce excessive or unnecessary costs that impede stockholders' participation and to act with transparency and fairness at the annual and special stockholders' meetings;
- The Company's undertaking to disclose material information promptly and accurately as well as the imposition of reasonable rules regarding the treatment and handling of material non-public information; and
- The establishment of an appropriate evaluation system for purposes of monitoring and assessing compliance with the CG Manual and other applicable laws and administrative issuances.

Code of Ethics

The Company's Code of Business Conduct and Ethics, or Code of Ethics, was adopted to strengthen the implementation of the CG Manual. Approved by the Board on March 30, 2004 and subsequently updated on July 11, 2006, the Code of Ethics sets out the Company's business principles and values, which aim to promote a culture of good corporate governance. It provides standards that gov-



ern and guide all business relationships of PLDT, its directors, officers and employees, especially with respect to the following:

- Compliance with applicable laws, rules and regulations;
- Ethical handling of conflicts of interest, corporate opportunities and confidential information;
- Protection and proper use of company assets;
- Fair dealing with employees, customers, service providers, suppliers, and competitors;
- Compliance with reporting and disclosure obligations to the relevant regulators and to investors;
- Compliance with disclosure and financial reporting controls and procedures;
- Assessment and management of risks involved in business endeavors; and
- Adoption of international best practices of good corporate governance in the conduct of the Company's business.

The Code of Ethics undergoes a mandatory

review process every two (2) years. The latest review was in October 2010. The GNC approved the results of the review which found that the Code is appropriate for the Company and compliant with the applicable laws, regulations and listing standards and that no revision was needed at that time.

Other policies

The Company also has enabling policies adopted by the Board to provide specific guidelines on the provisions of the Code of Ethics.

(a) Conflict of Interest Policy approved on October 24, 2005 – This Policy aims to ensure that work-related actions of our directors, officers, employees and consultants are based on sound business principles and judgment devoid of bias or partiality. It enjoins all employees to be aware of the possibility of such bias and partiality in dealings with various entities or individuals in the course of or in relation to their work. The policy likewise mandates that employees who find themselves in a possible conflict of interest situation should promptly disclose the matter to the relevant authorities. If warranted, the employee concerned should also obtain appropriate approvals and inhibit himself from any action, transaction or decision involving an existing or potential conflict of interest.

(b) Policy on Gifts, Entertainment and Sponsored Travel approved on January 31, 2006 – This Policy provides safeguards so that the custom of giving gifts is handled in accordance with the principles of integrity, accountability, fairness and transparency. It aims to prevent the occurrence of situations or actions that could significantly affect objective, independent or effective performance of an employee's duties. Specifically, it prohibits the solicitation of gifts, sponsored

travel, and entertainment from third parties. Receipt and acceptance of gifts voluntarily given by such third parties are handled according to this policy as well.

(c) Supplier/Contractor Relations Policy approved on January 31, 2006 – This Policy seeks to ensure that the Company upholds the highest professional standards in business practices and ethics in its dealings with suppliers and contractors in the procurement of goods and services. The policy seeks to maintain PLDT's reputation for equal opportunity and honest treatment of suppliers in all business transactions. The policy establishes clear rules for arm's length transactions and fair treatment of prospective and existing suppliers with the objective of always obtaining the best value for the company.

(d) Policy on Employee Disclosure on Violations of the Corporate Governance Rules, Questionable Accounting or Auditing Matters, and Offenses covered by PLDT's Table of Penalties (or the Expanded Whistleblowing Policy) approved on May 9, 2006 – This Policy provides guidelines on handling employee disclosure or complaint of violation of rules pertaining to the aforesaid matters, protects whistleblowers from retaliation and ensures confidentiality and fairness in the handling of a disclosure or complaint.

Detailed implementing guidelines are likewise issued for the said policies to ensure their wide observance. All these policies and rules (collectively, the Corporate Governance or CG Rules) are periodically reviewed to ensure that they are appropriate for PLDT, keep pace with comparable and applicable global best practices, and are compliant with the requirements of the Philippine and U.S. SEC, NYSE and Hong Kong Stock Exchange corporate governance rules, as may be appropriate

and applicable.

To access the Code of Ethics, CG Manual or information on how our corporate governance practices and those required of U.S. listed companies under NYSE Section 303A.11 differ, please refer to:

[http://www.pldt.com.ph/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT Code of Business Conduct and Ethics.pdf](http://www.pldt.com.ph/governance/about/Documents/27623c20007849698da4df57179ec70dPLDT%20Code%20of%20Business%20Conduct%20and%20Ethics.pdf)

http://www.pldt.com.ph/governance/about/Documents/22336f71c88c495793d15575c2addffcp1dtdcorpgov_manual.pdf

<http://www.pldt.com.ph/governance/about/Documents/f7933d17962d4b2c942e50ba4980f21bpldtdisclosure.pdf>



Our subsidiaries and their respective subsidiaries have also adopted corporate governance rules and policies similar in substance and form to PLDT's CG Rules, as well as appointed their respective corporate govern-

ance officers.

As part of the embedding of corporate governance standards in performance evaluation of personnel, the Company includes corporate governance policy violations as a cause for disqualification in incentives and rewards in its Policy on Employee Qualification for Incentives and Rewards. PLDT officers and executives have also been required to submit Conflict of Interest Disclosures in order to maintain strict observance of the PLDT Conflict of Interest Policy. PLDT is progressively institutionalizing the practice of timely and transparent disclosures down to the level of rank and file employees.

Pursuant to the Expanded Whistleblowing Policy, PLDT maintains an Expanded Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission system. Any employee may submit a complaint or disclosure of violation of the rules referred to in the said Policy to the Chief Governance Officer or to the CGO, verbally or in writing. The CGO then conducts a preliminary evaluation to determine the appropriate investigating unit to which the case shall be assigned for further action. The CGO monitors the cases reported and ensures appropriate reporting to the Audit Committee, GNC, or any other relevant committee or body on the results of the investigations and the prompt referrals of findings to the appropriate units concerned. The Company's committees on officer or employee discipline, as the case may be, are responsible for evaluating and approving the appropriate disciplinary action against erring officers and employees.

The system is open to all employees who come forward in good faith, regardless of rank or status to report violations of CG Rules or any act that may be considered as contrary to the Company's values of accountability,

integrity, fairness and transparency. Finally, the CGO also addresses queries and requests for opinions from operating units to provide guidance and ensure adherence to CG rules and values.

To make sure that relations between the Company and its business partners are imbued with shared standards on good corporate governance, the Company has developed written corporate governance guidelines for suppliers and contractors to which the Company's suppliers and contractors are expected to consent in writing, thereby ensuring that they understand and accept these standards as indispensable in doing business with PLDT. The Company also conducts suppliers'/contractors' briefings and communicates to its business partners, including suppliers, the Company's commitment to, as well as expectations on, good corporate governance.

Education and Enhancements

PLDT recognizes the need for providing the appropriate environment for encouraging ethical behavior as a means of developing the desired corporate culture. PLDT's corporate governance education and communication activities aim to reach out to all PLDT personnel through face to face and on-line trainings and workshops, and the production and dissemination of relevant corporate governance materials. In 2010, PLDT corporate governance materials revolved around the theme "Our Values at Work" which exhorted all company personnel to apply the values of accountability, integrity, fairness and transparency as aids and tools in the pursuit of outstanding and principled performance.

PLDT invests considerable resources in the continuous training of its Board and senior

management in corporate governance. PLDT has organized and conducted four (4) corporate governance enhancement sessions since 2007 and has invited internationally-known experts to share their insights and interact with PLDT's Board and senior management.

PLDT conducted its 2010 corporate governance enhancement session for its Board on December 14. Mr. Marc Ronez, Managing Director of the Singapore-based Asia Risk Management Institute and a professor at the National University of Singapore presented a briefing entitled *Board of Directors Fiduciary Duties and Role in Relation to ERM: Best Practices in Dealing with the Agency Dilemma and Setting a Company's Risk Appetite*. Seven (7) out of the thirteen (13) PLDT Directors attended this particular enhancement session. All of the PLDT Directors have attended at least one (1) corporate governance enhancement session.



Mr. Marc Ronez of the Asia Risk Management Institute addresses PLDT Group Senior Management.

Mr. Marc Ronez also conducted a briefing for PLDT's senior management on December 14, 2010. His briefing was entitled *Enterprise Risk Management in Relation to Transformation and Change Efforts of an Organization*. Thirty nine (39) out of the fifty seven (57) active members of senior management have at-

tended the corporate governance enhancement session. All in all, fifty (50) out of the fifty seven (57) active members of PLDT's senior management have attended at least one (1) corporate governance enhancement session.

Newly promoted and hired executives are required to undergo a one-day workshop on Ethical Decision Making as part of their competency development as managers. The highly interactive course provides personnel in the middle manager category an opportunity to discuss and develop approaches to ethical dilemmas that confront them at the workplace.

Two e-Learning modules were released for mandatory access and compliance. The first is an online module on the PLDT Conflict of Interest Policy, which targets supervisory and rank and file employees. The second, on the Expanded Whistleblowing Policy, requires compliance on the part of PLDT executives with the rank of manager, senior manager and assistant vice president. Compliance with both requirements is at more than 99% of the target learners. The Company continues to implement other training activities such as the Refresher Course for selected units and Corporate Governance Orientation for newly-hired employees in the supervisory and rank and file levels.

Compliance with CG rules and observance of our CG values are further reinforced through the Company's corporate governance communication efforts.

PLDT issues a monthly e-newsletter called *Ripples*, which features stories, news and developments that seek to inspire observance of PLDT's corporate governance values. Online copies of this newsletter are available

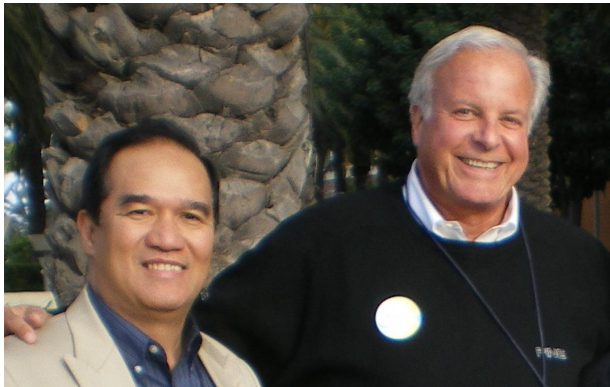
for access at the PLDT website. PLDT also releases weekly *Corporate Governance Newsbriefs* which are summaries of news articles from global on-line sources. The Newsbriefs are sent to the PLDT Directors and select PLDT Officers and executives. Finally, PLDT releases periodic advisories on its corporate governance policies to all its employees, the latest of which was an advisory and contest on the PLDT Policy on Gifts, Entertainment and Sponsored Travel Policy. This advisory was released in November 2010 to serve as a reminder on the ethical handling and treatment of gifts during and beyond the Christmas gift giving season.

PLDT benchmarks against proven best practices in corporate governance. In pursuit of this, PLDT maintains its active membership with the Ethics and Compliance Officer Association (ECOA), the largest association of ethics and compliance professionals in the world. The ECOA is based in the USA and counts a global membership of about 1,200 corporate governance and ethics and compliance professionals. PLDT is the only sponsoring partner member of the ECOA in the Philippines.

PLDT regularly attends and participates in ECOA activities particularly the Annual Ethics and Compliance Conference the latest of which was held in September 21-23, 2010 at Anaheim, California. A major development in PLDT's participation in the ECOA is the election of Elmer Nitura, Corporate Governance Officer of PLDT Subsidiary, Smart Communications, Inc., to the ECOA's Board of Directors. Before Mr. Nitura, the former Chief Governance Officer of PLDT, Rene G. Banez, served as Director of ECOA from 2007 to 2008.

Inspired by its experience with the ECOA and

impelled by a desire to promote corporate governance outside its own domain, PLDT, along with a few other publicly listed companies, spearheaded the formation of an organization of corporate governance and ethics and compliance officers from various companies in the Philippines. The organization, called the Good Governance Advocates and Practitioners of the Philippines (GGAPP), has been conducting regular monthly meetings to discuss collective efforts aimed at improving corporate governance practices in the Philippines. Finally, PLDT maintains its active involvement in activities organized by the Institute of Corporate Directors (ICD) such as Breakfast Roundtables and corporate governance working sessions.



Elmer Nitura, head of Corporate Governance for Smart Communications and Keith Darcy, Executive Director of the ECOA, at the ECOA Annual Ethics and Compliance Conference in Anaheim, California in September of 2010.

Recognition and Awards

PLDT believes that there is a positive relationship between ethical business conduct and good corporate governance on one hand, and excellent business performance and results, on the other. In 2010, PLDT was once again listed among the Gold Awardees in the Corporate Governance Scorecard of the ICD. Only eleven (11) publicly-listed companies in the Philippines were given the distinction of

being a Gold Awardee. PLDT has consistently been one of the top five (5) companies in the ICD Corporate Governance Scorecard since it started in 2005. Asiamoney Magazine also cited PLDT as the best company in the Philippines in corporate governance for 2010. In addition, it also recognized PLDT as the best in disclosure and transparency, best for responsibilities of senior management and the board of directors, and best in investor relations in the Philippines. Likewise, Euromoney Magazine gave the following awards to PLDT: best in corporate governance in the Philippines and most convincing and coherent strategy in the Philippines. Finally, Finance Asia Magazine cited PLDT's investor relations as the best in the country and also recognized PLDT as the company that is most committed to a strong dividend policy in the Philippines. These awards and recognition serve to inspire PLDT to move on and move further with its corporate governance initiatives.

Whether or not PLDT garners awards and recognition, it aims to show, in its own way, that good governance is essential in achieving sustained growth and profitability, and trusts in the inherent worth of the principles of accountability, integrity, fairness and transparency to serve as the foundation by which it will strive to create value for its shareholders, serve its customers, and conduct itself responsibly for the good of all its other stakeholders.

ENDNOTES

- ¹ Mr. Reyes' status as an independent director ceased as of August 3, 2010 due to his appointment as Chief Operating Officer of Manila Electric Company (MERALCO), an affiliate and investee company of the PLDT Group.
- ² Member and independent director until August 3, 2010.
- ³ Member beginning September 28, 2010.
- ⁴ Independent Director until August 3, 2010.
- ⁵ Member until September 28, 2010.
- ⁶ Member beginning November 8, 2010.
- ⁷ Independent Director until August 3, 2010.
- ⁸ Member until August 1, 2010.
- ⁹ Member beginning December 7, 2010.
- ¹⁰ Independent Director until August 3, 2010
- ¹¹ Resigned as member on July 26, 2010.
- ¹² Per Item 2.7(C) PLDT CG Manual, and Item 1.7, PLDT Revised Charter of the Audit Committee.
- ¹³ Part 2 Hiring and Placement D(6). Hiring of such persons, if ever, is allowed by the application of various "lookback" periods, depending on the nature of the service performed and the position for which the employee will be hired. Approval of the Chief Financial Officer is also required in certain instances.