

Philippine Long Distance Telephone Company



Acquisition of Meralco Shares

March 13, 2009

Transaction Structure

INVESTMENT AND COOPERATION AGREEMENT BETWEEN PLDT AND LOPEZ GROUPS

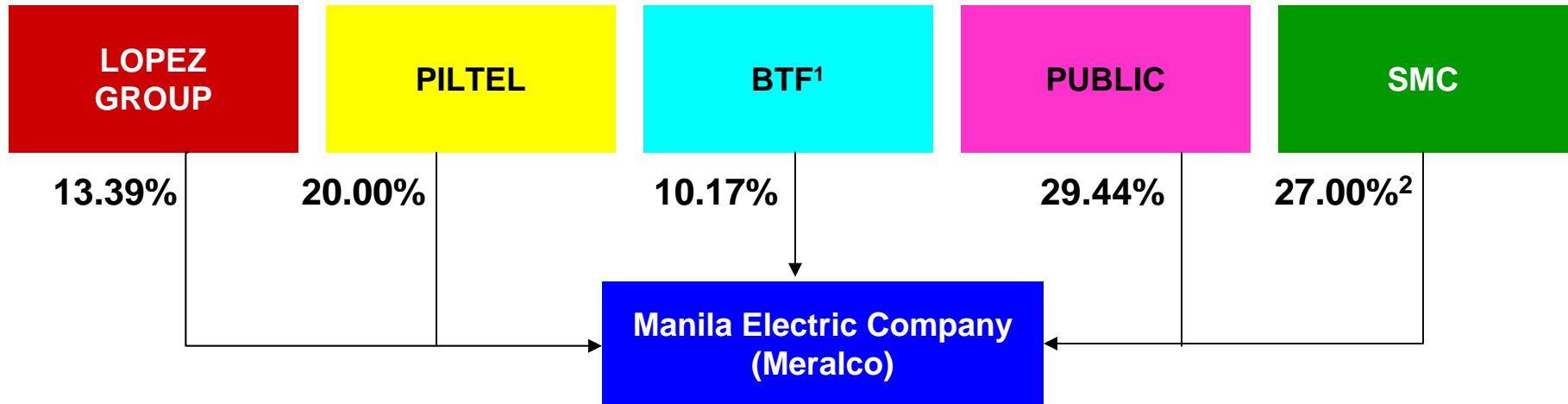
- PLDT to designate Piltel to acquire 223 million common shares of Meralco from the Lopez Group representing 20% of Meralco's total outstanding common shares.
 - Cash consideration of PHP20.07 billion or PHP90 per share
- Closing date no later than August 31, 2009
- Right of first refusal over shares in the event other party intends to sell its shares
- Lopez and PLDT Group agree to certain governance matters such as nomination of board directors and senior officers.

EXCHANGEABLE NOTE AGREEMENT BETWEEN PILTEL AND LOPEZ GROUP

- Piltel to purchase an Exchangeable Note, issued by First Philippine Utilities Corporation, with face value of PHP2 billion, exchangeable at the option of Piltel into 22,222,222 underlying Meralco shares and which will constitute part of the 20% Meralco shares to be acquired by Piltel.

- **PLDT to cap its investment in Meralco at 20%**
- **Subject to requisite shareholder approvals**

Meralco Shareholders Post-Transaction



¹The PLDT Beneficial Trust Fund (BTF) was established pursuant to the beneficial trust plan of PLDT company to meet the payment of benefits due to qualified employees under the plan in case of termination of service for the cause or causes enumerated under the plan. The Fund is managed and administered by trustees who comprise the Board of Trustees.

²Estimated

Transaction Rationale

Transaction Rationale – Synergies

OPERATIONAL SYNERGIES

- FIBER OPTIC BACKBONE
- EASEMENTS AND RIGHTS OF WAY
- ELECTRIC POWER POLES
- PROCUREMENT
- ADVERTISING SPEND
- RADIO FREQUENCIES
- BUSINESS OFFICES
- BILL STATEMENT PRINTING AND ENVELOPING
- EASY AVAILMENT OF COMMERCIAL POWER IN MERALCO FRANCHISE AREAS

BUSINESS SYNERGIES

- POSTPAID SUBSCRIBER BASE
- ICT/DATA CENTER
- PREPAID SERVICE
- BROADBAND OVER POWER LINES
- NEW SERVICES

Transaction Execution Plan

Why Piltel?

- Piltel's Articles of Incorporation expressly permits it to invest in businesses outside of its telecommunications business
 - Shareholder approval needed for the investment which Piltel intends to seek
- Piltel has a sizeable amount of cash that cannot be declared as dividends due to retained earnings limitations.
- Piltel is effectively an MVNO of Smart with no significant telco assets of its own; its 850Mhz spectrum was previously assigned to the 3G auction and then subsequently assigned to Smart by the NTC

Towards Piltel's Transformation

- Piltel to seek shareholder approval for acquisition of Meralco shares
- Cellular business to be consolidated under Smart in order to maximize revenue streams and eliminate any lingering regulatory issues relating to the traffic between the two companies.
- Piltel to therefore seek shareholder approval for the ff arrangements :
 - Licensing of the use of its “Talk ‘N Text” brand to Smart for which Smart will pay Piltel a lump sum royalty fee based on a percentage of projected net service revenues;
 - Transfer of the existing Talk ‘N Text subscriber base to Smart in consideration of a one-time payment equivalent to the subscriber acquisition cost which Smart would have incurred for the acquisition of its own subscribers;
 - Sale of Piltel's GSM fixed assets to Smart at net book value
- Annual General Meeting of Piltel to be postponed to June 30th to allow sufficient time to prepare the required documentation

Towards Piltel's Transformation

- Smart to undertake a tender offer for shares held by Piltel's minority shareholders (presently 840 million shares or 7.19%)
 - Tender will provide an exit opportunity for minority shareholders, given change in Piltel's business direction
 - Tender will likely require a premium over trading price;
 - Piltel shares have been trading in the range of P6.90 to P7.40;
- Piltel's principal asset will be its shares of Meralco.

Steps

- At its AGM on 30th June, Piltel will seek shareholder approval for the following arrangements :
 - Licensing of the use of its “Talk ‘N Text” brand to Smart for which Smart will pay Piltel a lump sum royalty fee based on a percentage of project net service revenues;
 - Transfer of existing Talk ‘N Text subscriber base to Smart in consideration of a one-time payment equivalent to the subscriber acquisition cost which Smart would have incurred for the acquisition of its own subscribers;
 - Sale of its GSM fixed assets to Smart at net book value
- Smart to undertake a tender offer for shares held by Piltel’s minority shareholders (presently 840 million shares or 7.19%);
 - Piltel shares have been trading in the range of P6.90 to P7.40;
 - Tender will likely require a premium over trading price;
- Cellular business now consolidated under Smart, thereby maximizing revenue streams and eliminating any lingering regulatory issues relating to the traffic between the two companies.
- Piltel’s sole business will be its shares of Meralco.

Transaction Timeline

13th March	PLDT/Smart/Piltel Boards
13th March	Disclosure on transaction rationale and structure
20th April	Piltel Board meeting to approve materials for AGM
4th May	Record date for Piltel AGM
5th May	Regular PLDT Board meeting/1Q09 results announcement
Week of 8th June	Distribution of Piltel Information Statement
9th June	PLDT AGM
30th June	Piltel AGM
31st August	“Backstop” Closing Date

**METRO
PACIFIC**
INVESTMENTS

The Infrastructure Company



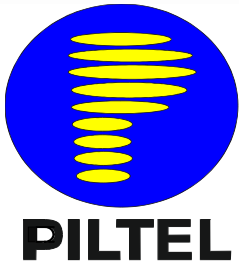
PLDT-BTF

X%

Operational Synergies with PLDT Group



- Customer base: 5.6 million in the West Zone of Metro Manila
- Use of wireless technology for meter reading/billing
- Real-time monitoring of water flow and pressure via SMS
- Coordinated excavation and permits



20%



- Customer base: 4.5 million
- Access use of fiber optic backbone
- Easements and rights-of-way
- Bill statement printing/enveloping
- * Procurement/ad spend
- * Electric power poles
- * Use of bus. ofc/real estate
- * Comm'l power for PLDT



- Optimal co-use of fiber optic network of NLEX/SCTEX/SFEX for increased capacity, resiliency and accelerated roll-out
- Co-location of cellsites along NLEX for better coverage
- Bundling of ECTRIP/ECTAG with DSL/Smart Bro packages
- Use of SmartMoney technology for Paypass



- Procurement of medicines and other inventories through ePLDT's Bayantrade
- Use of PLDT expertise information and accounting systems
- Automated verification of patients' records