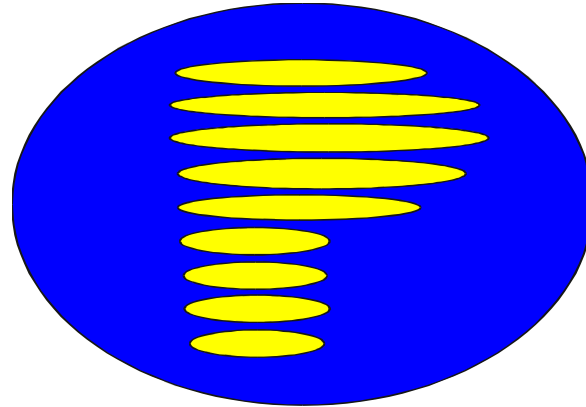


# HOUSE RULES

- The stockholder must first identify himself and request to be recognized by the Chair.
- The stockholder will be allowed to ask only one question and the Chair has the discretion to entertain or not to entertain a follow-up or second question.
- The question must pertain to the item of the Agenda presented for approval.
- A maximum of 3 minutes will be allotted for any question or comments from the stockholder.
- The stockholder must observe the proper decorum.
- In case the stockholder fails to observe the rules, the Chair has the discretion to declare him out of order and expel him from the floor.



**PILTEL**

Annual Stockholders' Meeting

30<sup>th</sup> June 2009

# Meralco Transaction

- Last 13<sup>th</sup> March, the Board approved the proposal to invest corporate funds in the amount of up to P20.07 billion in shares of stock representing 20% of the outstanding voting stock of Meralco.
- Accordingly, Piltel entered into an agreement to purchase from the Lopez Group a total of 223 million shares of voting stock of Meralco at a price of P90.00 per share, or a total purchase price of P20.07 billion.
- Last 26<sup>th</sup> May, with the cooperation of the Lopez Group and the PLDT Beneficial Trust fund, the following were elected as regular directors of Meralco:
  - Manuel V Pangilinan
  - Ray C Espinosa
  - Napoleon L NazarenoAlso appointed as Chief Financial Officer was our nominee, Ms Betty Siy.

# Meralco Company Overview

- Meralco is the largest distributor of electricity in the Philippines. Its service area spans 9,337 square kilometers, where approximately a quarter of the total Philippine population resides
- The franchise area of Meralco covers specific areas in Luzon, consisting of 25 cities and 86 municipalities where it serves approximately 4.5 million customers. The company operates through a network of 30 business centers and 10 sector offices in the central, north, and south areas of the franchise
- Meralco distributes electric energy to a diversified customer base comprising commercial customers, industrial customers, residential customers and streetlights
- Meralco's service area produces 49% of the national gross domestic product
- In FY2008, the company sold approximately 26,799 million kilowatt-hour (kWh) of electricity
- The commercial customers accounted for 39.14% of the total electricity sales in FY2008, residential customers accounted for 32.17%, and industrial customers accounted for 28.24%.
- The company's key products and services include the following:
  - Electricity distribution
  - Business process reengineering
  - Industrial construction and engineering
  - Real estate development
  - Consultancy services
  - e-business
  - Energy related solutions
  - Energy management
  - Customer focused training solutions

## Meralco's franchise network



## Subsidiaries

- Meralco Industrial Engineering Services Corporation
- Meralco Energy, Inc.
- E-Meralco Ventures
- CIS Bayad Center, Inc.
- Meralco Financial Services Corporation
- Rockwell Land Corporation
- Republic Surety and Insurance Company, Inc.
- Meralco Millennium Foundation, Inc.
- Meralco Management and Leadership Development Center

## Affiliates

- First Private Power Corporation
- General Electric Philippines Meter & Instrument Company
- Soluziona Philippines

# Transaction Rationale

## 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

# Towards Piltel's Transformation

- The acquisition of a stake in Meralco is in line with the PLDT Group's strategic intent to maximize operational and business synergies that could yield new revenue streams and cost savings for both our Group and Meralco.

## Request for Approval

- Board recommends and seeks approval to invest corporate funds in the amount of up to P20.07 billion in shares of stock representing approximately twenty percent of the outstanding voting common stock of Manila Electric Company

## **Sale and Transfer of Cellular Business and Assets**

- Last 13<sup>th</sup> March and 20<sup>th</sup> April, the Board also approved the proposal to sell and transfer the Company's GSM cellular business and assets to Smart through the following transactions:
  - Sale of Piltel's "Talk 'N Text" trademark to Smart (P8.0 billion)
  - Transfer of Piltel's existing Talk 'N Text subscriber base to Smart (P1.2 billion)
  - Sale to Smart of Piltel's GSM fixed assets (P2.3 billion)
- Total due to Piltel from approved transactions will be P11.5B

# Key Considerations

- Prior to 2000, Piltel offered cellular services on AMPS and CDMA
  - Unable to provide SMS on these platforms
- Company was also undertaking a P39.5 billion debt restructuring program
  - Piltel issued P20.5 billion worth of convertible preferred shares which were exchanged for PLDT convertible preferred shares
  - PLDT issued US\$150 million Letter of Support which was pivotal to creditor approval of the debt restructuring program
- In 2000, Piltel launched Talk 'N Text as a flanker brand using Smart's GSM network
- As payment for the use of Smart's network for Talk' N Text, Piltel paid 50% of its GSM revenues to Smart. The agreements also covered services outsourced by Piltel to Smart such as network management, customer care and general administration

# Key Considerations

- In 2004, Smart and Piltel entered into a new Omnibus Service Agreement (OSA) which superseded and replaced the various original agreements. The OSA covered the provision of all the services under the abovementioned existing agreements, in consideration of a revenue sharing arrangement of **80-20** in favor of Piltel.
- In 2008, Piltel and Smart amended the revenue-sharing ratio to 70-30, still in favor of Piltel, beginning January 1, 2009 until December 31, 2010.
  - OSA automatically renewed every six months unless terminated by either party with 60 days' written notice
  - Without the OSA, Piltel will be unable to provide its Talk 'N Text service
  - Shift in revenue mix towards bucket packages is expected to continue and revenue share will need to be periodically adjusted, increasing Smart's share

# Key Considerations

- Cellular business will therefore be consolidated under Smart in order to maximize revenue streams and eliminate any lingering regulatory issues relating to the traffic between the two companies.
- Once transactions are completed, Piltel will cease to be a telecommunications service provider and will transform into a holding company with a 20% equity stake in Meralco
- In view of this change in business direction, Smart, which already owns 92.81% of Piltel, announced on June 19, 2009 that it is making a tender offer for all Piltel common shares held by minority shareholders.
  - Presents an exit opportunity for minority shareholders

# Tender Offer Terms

## Tender Offer

- Tender Price of P8.50, payable in cash and in full on 12th August
- Smart intends to acquire all 839,979,054 shares held by minority shareholders
- Smart will accept any and all shares tendered, subject to fulfillment of documentary requirements
- Tender offer is not conditional on any minimum number of shares tendered

## Offer Period

- July 1, 2009 (starting at 9:30 am) to July 29, 2009 (up to 12 noon)

## Terms and conditions

- Smart's Tender Offer Report has been filed with the regulators
  - Will be mailed to all stockholders
- Summary of terms and conditions to be published in two newspapers from July 1-3

# Validation of Tender Offer Price

- Piltel Board constituted Independent Committee (IC) made up of independent directors to evaluate fairness and reasonableness of terms of the tender offer.
  - Edward Go, Chairman
  - Eric Filamor
  - Lito Pedrosa
  - Johnny Santos
- IC engaged CLSA Exchange Capital, Inc as an independent financial advisor (IFA)

# Validation of Tender Offer Price

- Fairness opinion is attached to the Tender Offer Report
  - Premium being offered to Piltel minority shareholders is above the highest premiums paid over various benchmark dates in comparable Philippine transactions and within range of premiums paid for similar Asian transactions

## Philippine Tender Offer Deals

Date Announced	Target	Bidder	% of target being bought	Premium (Discount) to Closing Price (%)		
				1 day Prior	30 days Prior	90 days Prior
20-Feb-09	San Miguel Brewery	Kirin Holdings Co.	5.75%	(9%)	(10%)	(4%)
05-Jun-08	Petron Corporation	SEA Refinery Holdings	60%	19%	15%	5%
29-Aug-06	Equitable PCI Bank	SM Investments Corp.	66%	23%	17%	27%
			<b>High</b>	<b>23%</b>	<b>17%</b>	<b>27%</b>
			<b>Average</b>	<b>11%</b>	<b>7%</b>	<b>9%</b>
			<b>Median</b>	<b>19%</b>	<b>15%</b>	<b>5%</b>
			<b>Low</b>	<b>(9%)</b>	<b>(10%)</b>	<b>(4%)</b>

Source: Mergermarket

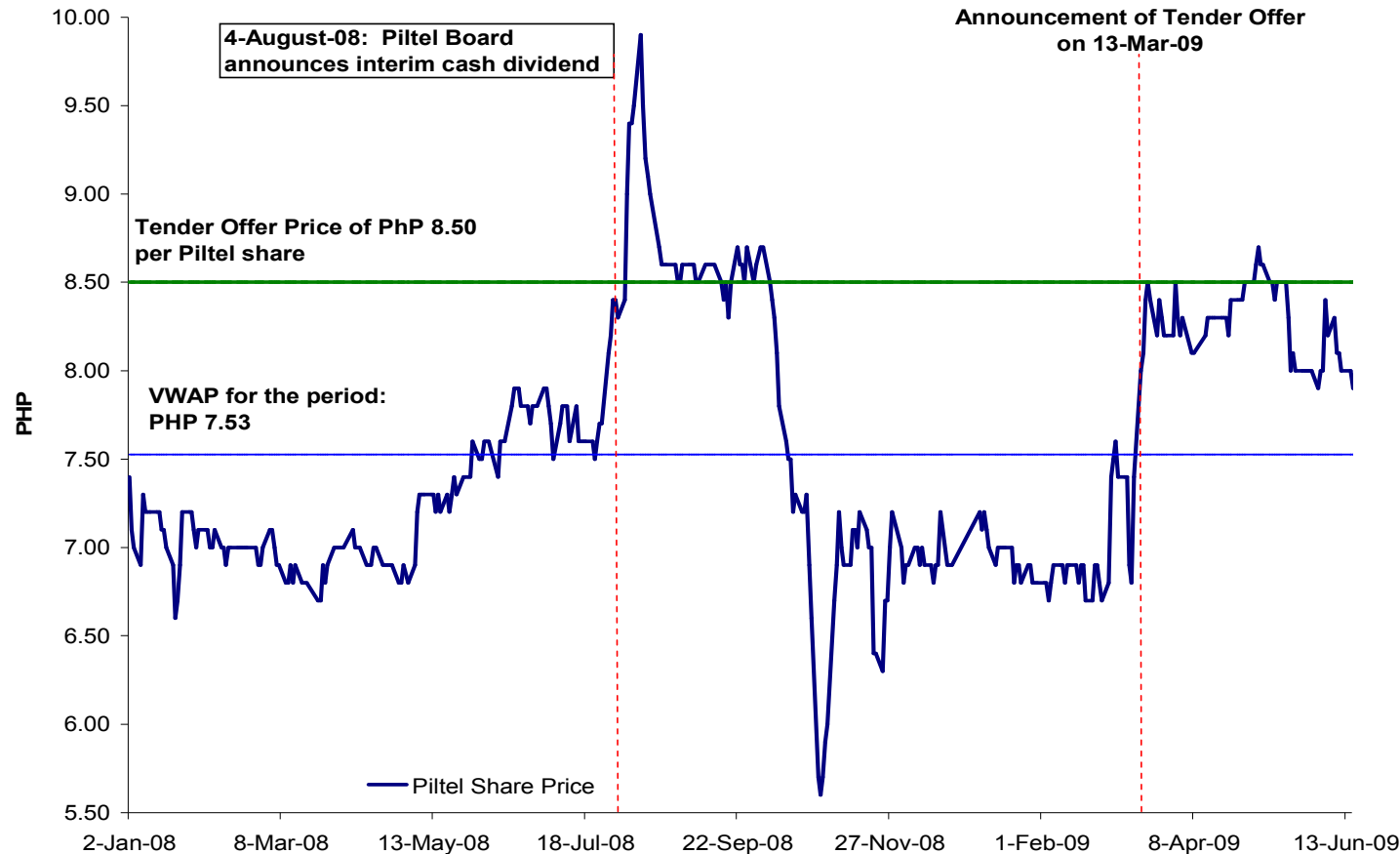
# Validation of Tender Offer Price

- Fairness opinion is attached to the Tender Offer Report
  - Based on trading multiples of comparable telecommunications companies, the P/E and EV/EBITDA multiples for PILTEL resulting from the tender offer price are within the range of P/E and EV/EBITDA multiples of both Philippine comparables and Asian comparables; and
  - The tender offer price is at the upper range of PILTEL's historical share price range for the period from January 1, 2008 to June 19, 2009 and 13% above the volume weighted average price for the same period.

	1 day prior	30 days prior	90 days prior
<b>Date</b>	12-Mar-09	13-Feb-09	12-Dec-08
<b>Piltel Closing Share Price</b>	6.80	6.90	6.90

<b>Offer Price</b>	1 day prior	30 day prior	90 day prior
8.50	25%	23%	23%

# Share Price Movement



**TO offer price is at:**

- 25% premium over P6.80 share price on 12<sup>th</sup> march 2009, one day before the transaction was first announced
- 13% premium over volume-weighted average share price from 2nd January 2008 to 18th June 2009 of P7.51
- 10% premium over the average share price for 2009 of P7.69
- 5% premium over Piltel's closing share price on 19th June 2009 of P8.10
- 20% premium to average buyback price of P7.09

# Conclusion

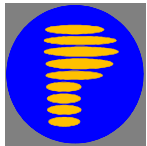
- In light of the analysis, the IFA and IC are of the view, and the Board concurs, that the terms of the Tender Offer are fair and reasonable
- Tender Offer will give minority shareholders an exit opportunity under terms that are fair and reasonable
  - Tender Offer also an alternative to exercise of appraisal rights
- Despite Smart already owning 92.81% of Pritel, the Board has ensured an independent review of the Tender Offer
  - While seven of Pritel's directors are also directors and officers of Smart, six members (or nearly 50% of the Board) are either independent or non-executive directors

# Request for Approval

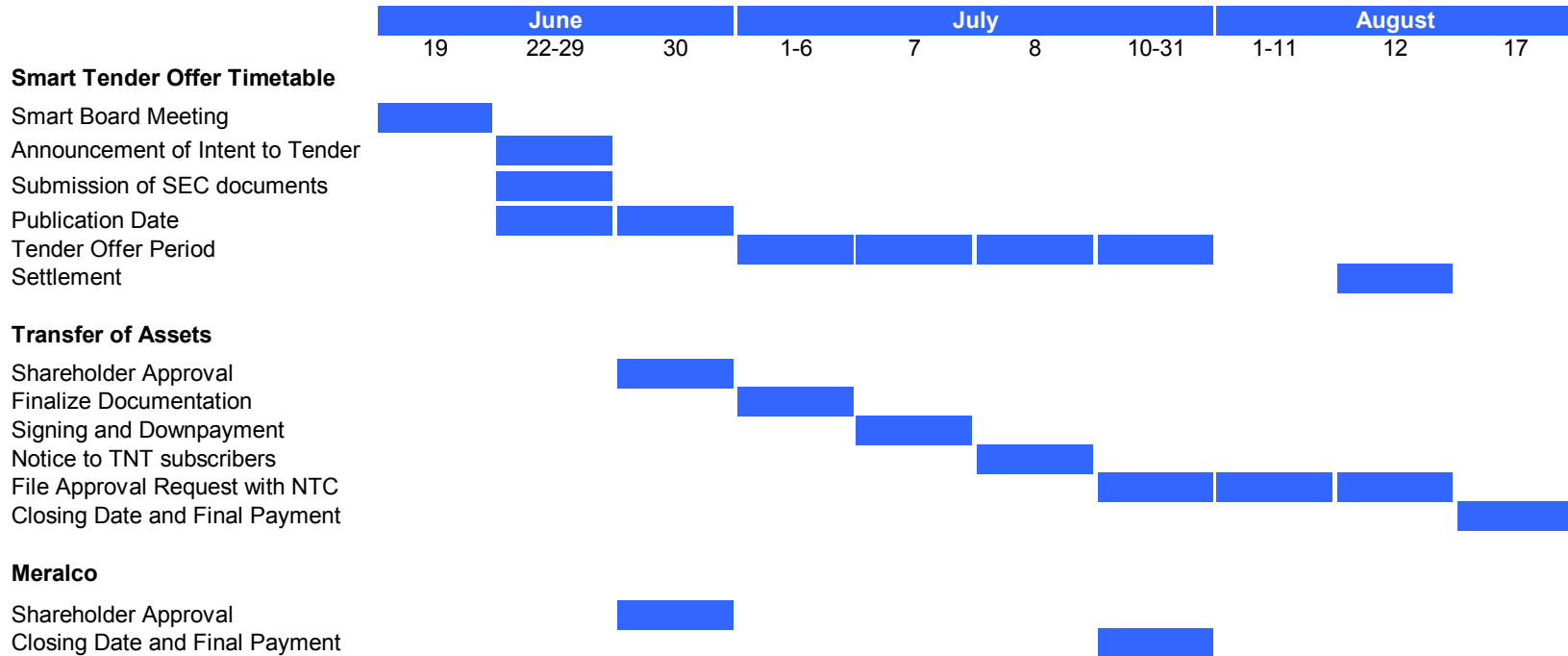
- Board recommends and seeks approval to sell and transfer Piltel's telecommunications business and assets to Smart Communications, Inc



*Thank You*



# Update on Piltel Transactions



## SIGNIFICANT DATES

Smart/Piltel Board Meeting	19-Jun
Announcement of Tender	22-Jun
Publication of Notices	29-30 Jun
Shareholder Approval	30-Jun
Start of Tender Offer Period	1-Jul
Closing of Meralco Transaction	14-Jul
Close of Tender Offer Period	29-Jul
Tender Settlement Date	31-Jul
Closing of Transfer of Business	17-Aug