

24th November 1998

Highlights

- **US\$749 million acquisition of a 17.2 per cent economic interest, representing a 27.4 per cent voting interest in PLDT**
- **Manuel Pangilinan appointed PLDT's President and CEO**
- **Six new directors appointed to PLDT's 11-member Board**
- **Proposal to transfer interest in Smart to PLDT in exchange for new PLDT shares**

FIRST PACIFIC ACQUIRES PLDT STAKE FOR US\$749 MILLION; MANUEL PANGILINAN NAMED PRESIDENT, CEO; NEW DIRECTORS NAMED

In a major step in its ongoing restructuring program, First Pacific announced today that it has acquired a 17.2 per cent stake in Philippine Long Distance Telephone Company (PLDT) - representing a 27.4 per cent voting interest in the Company - for US\$749 million (HK\$5.8 billion).

At a special meeting this morning of the Board of Directors of PLDT - the largest telecoms company in the Philippines - First Pacific's Managing Director, Manuel V. Pangilinan, was appointed President and CEO. He was also named to the Company's 11-member Board, joining five other new appointees nominated by the First Pacific Group.

The purchase of the PLDT investment has been funded largely from the proceeds of First Pacific's asset disposal program which commenced in December 1997, as well as from bank credit lines.

In addition, First Pacific announced that a preliminary agreement has been reached with Japan's Nippon Telegraph & Telephone Corporation (NTT) to raise its stake in Smart Communications, Inc., from approximately 15 per cent to up to 40 per cent. No terms or pricing for the transaction have yet been set.

Following this move, First Pacific - which, together with its Metro Pacific Corporation affiliate in the Philippines, holds an economic interest in Smart of approximately 65 per cent - intends to transfer its remaining interest in Smart to PLDT in exchange for new PLDT shares, thus increasing further its holding in the Company. This proposal, which will be subject to regulatory and other approvals, is expected to be submitted to PLDT's Board as soon as practicable in 1999.

Mr Pangilinan, said: "The acquisition of a significant stake in PLDT is a milestone in First Pacific's evolution from a diversified international conglomerate into the owner of a select number of high-quality, larger businesses within Asia. While we do not see the region's harsh conditions lifting any time soon, we believe the timing is right for those with a long-term perspective to begin the process of re-investing.

"Our strategy is to acquire businesses in the region that are leaders in their home markets and have strong brand names. We believe that we can add substantial value to such companies and help them prosper by applying First Pacific's hallmark qualities of strong financial discipline and transparency, as well as by implementing international standards of industry practice.

"In the case of PLDT, First Pacific will be adding significant value to one of the largest companies in the Philippines. We will do this by improving efficiency, working to extend interconnect across the country, improving network planning and enhancing related functions.

"Using our expertise developed at Smart we will implement effective marketing strategies as competition increases and the telecoms industry in the Philippines consolidates. By working to join Smart together with PLDT we can provide increasingly sophisticated consumers with integrated fixed and mobile products and services.

"The result will be a stronger, more efficient PLDT - one that brings direct benefits to shareholders, to customers and to employees," Mr Pangilinan said.

Terms of the acquisition

First Pacific has agreed to pay P29.7 billion, equivalent to US\$749 million for a 17.2 per cent economic interest in PLDT, representing a 27.4 per cent voting interest. This equates to a price of P1,420 per share, in terms of economic interest, or a 31 per cent premium to the previous day's closing market price of P1,085.

First Pacific's interest has been acquired in two steps:

- A direct interest of approximately 5.9 per cent was acquired through recent market purchases at a cost of US\$197 million.
- An indirect interest of 11.3 per cent was acquired through the purchase of 52.7 per cent of Philippine Telecommunications Investment Corporation (PTIC) - which owns a 21.5 per cent bloc of PLDT shares - as well as rights in PTIC, from Antonio Cojuangco and his family, Nori Ongsiako and her family, Antonio Meer and Alfonso Yuchengco for US\$552 million.

Rationale

Established 70 years ago, PLDT operates the Philippines' largest telephone network for local and long distance calls. It owns approximately 80 per cent of the installed fixed-line connections in the Philippines. In addition, its 50.1 per cent held subsidiary, Pilipino Telephone Corp. (Piltel), has approximately 20 per cent of the cellular subscriber market, making it the number-two player behind Smart, which has a market share of 53 per cent.

First Pacific considers the following to be the principal investment attractions of PLDT:

- **Significant room exists to increase PLDT's customer base.** Given the Philippines' low teledensity level, which stands at 3.3 lines per 100 people, and the company's established leadership position, PLDT is well placed to benefit as growth accelerates in the Philippines telecoms sector. A further 10 million lines are expected to be built in

the country over the next decade, compared with the 2.4 million currently installed. The Company will commit itself to a policy of bringing more phones to more people more quickly.

- **PLDT is among the Philippines' best-known brands.** Over the course of its 70 years of operations, PLDT has developed a strong brand identity across the Philippines. By building on this strength, PLDT will be well positioned to maintain its market leadership in an increasingly competitive and consolidating industry. Smart has had significant success in developing marketing strategies for the Philippine market which can be brought to bear at PLDT.
- **Significant room continues to exist to create cost efficiencies.** While PLDT has made good progress in recent years in increasing operating efficiencies, there is considerable scope for further improvement, particularly in the areas of capital investment where installation costs are significantly higher than benchmarks set by other Asian operators. Better planning, procurement and financial controls would result in lower costs to build out the Company's network.
- **PLDT can benefit by improving interconnect for all telecoms operators.** By working immediately to improve the quality of the interconnect between PLDT's network and those operated by other domestic carriers, reliability will increase and significant enhancements can be made to the company's revenues.
- **A combination of Smart and PLDT will deliver an integrated solution to customers telecoms requirements.** By combining these two complementary businesses, the enlarged group will position itself as the telecom service provider of choice in an increasingly competitive market. It will be capable of delivering to consumers a wide range of integrated technologies and pricing structures well suited to individual needs.

In addition to leading to improved financial returns, these changes will create improved service for all telecoms users and support economic growth in the Philippines.

PLDT's new Board

At a special meeting of the Board of Directors of PLDT, First Pacific's Managing Director, Manuel V. Pangilinan, was appointed President and CEO, as well as a Director, of the Company. He succeeds Antonio Cojuangco who has been named Non-executive Chairman.

Mr Pangilinan will retain his position as Managing Director of First Pacific in Hong Kong.

As well as Mr Pangilinan, five other new appointments were made to PLDT's Board. They comprise: Napoleon Nazareno, Albert del Rosario, Ray Espinosa, Father Bienvenido Nebres and Orlando Vea.

Senior appointment at PLDT

PLDT's Chief Financial Officer, Eduardo Del Fonso, has expressed a desire to step down from his post. Christopher H. Young, 41, who has worked for the First Pacific Group for 11 years, the last four as Metro Pacific Corp.'s Financial Advisor, will assume a similar role at PLDT. Prior to joining First Pacific, he spent nine years at Price Waterhouse's auditing and business advisory services department in London and Hong Kong.

ING Barings is acting as financial adviser to First Pacific and no one else in connection with this transaction and will not be responsible to anyone other than First Pacific for providing the protections afforded to customers of ING Barings or for giving advice in relation to the transaction.

APPENDIX: Background on PLDT

Philippine Long Distance Telephone Company (PLDT) is the country's principal provider of domestic and international telecommunications services. Its shares are traded on the Philippine Stock Exchange, as well as on the New York Stock Exchange and Pacific Stock Exchange in the form of American Depositary Receipts.

The Company's charter, which extends until 2028, authorizes it to provide virtually every type of telecoms service. It operates some 80 per cent of the country's phone lines, or 1.7 million connections, about three-quarters of which are in Metro Manila where it operates 174 central office exchanges, in addition to 188 outside the capital.

PLDT is also the principal provider of long distance phone service, with a nationwide digital microwave backbone connecting its exchanges with 466 others that are owned and operated by other phone companies and government agencies. It accounts for 90 per cent of the domestic long-distance market and 67 per cent of the international market.

PLDT also owns 50.1 per cent of Pilipino Telephone Company (Piltel), which is licensed to provide a CDMA-based mobile phone service. It currently has approximately 190,000 subscribers and 95,000 holders of prepaid calling cards.

The Philippine market in which PLDT operates is under-served by most measures, with 2.4 million installed lines and a further 10 million lines expected to be installed in the next decade. Teledensity - the number of phones per 100 people - is approximately 3.3 per cent. By comparison, estimated teledensity in Indonesia is 2.5 per cent, China is 5.8 per cent, Thailand is 7.2 per cent and Malaysia is 19.8 per cent.

5-year audited financial figures (PHP million)

Breakdown of Operating Revenues 1997

5-year audited financial figures (PHP million)

	1993	1994	1995	1996	1997	3Q98*
Total operating revenues	20,404	22,472	25,055	28,688	35,622	35,578
Net operating income	7,969	8,253	8,218	11,441	15,065	15,764
Net income before unusual items	4,998	4,841	4,966	6,440	8,234	7,006
Net income	4,998	4,841	5,751	6,440	7,649	7,006
Total assets	65,006	82,645	103,373	125,242	185,470	214,355
Total stockholders' equity	30,434	40,286	44,943	50,279	56,321	62,137
Average Exchange Rate (PHP:US\$)	27.12	26.42	25.71	26.22	30.00	41.28

* unaudited nine-month figures

Breakdown of Operating Revenues 1997

