

CORPORATE GOVERNANCE REPORT 2011

PLDT has long committed itself to very high standards of corporate performance in order to achieve sustained growth and profitability and create value for its shareholders and stakeholders. It is a commitment that, in turn, demands adherence to the highest corporate governance standards and practices. Inasmuch as PLDT is a public company and its common shares are listed in the Philippine Stock Exchange (PSE), while its American Depositary Shares are listed in the New York Stock Exchange, PLDT finds itself in the unique position of being the only telecommunication company in the Philippines that is subject to, and must comply with, the corporate governance requirements of both the Philippines and the United States. These requirements are set forth under various laws, rules, and regulatory issuances, including the Philippine Revised Code of Corporate Governance, the PSE Corporate Governance Guidelines, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act and the New York Stock Exchange Listing Rules. In addition, PLDT as an associated company of First Pacific Company Ltd., which is listed in the Hong Kong Stock Exchange, also looks to the corporate governance standards of Hong Kong for guidance and benchmarking purposes.



PLDT continues to benchmark against recognized international best practices and monitor developments in corporate governance in order to elevate the Company's CG structures, processes, and practices to global standards. Most importantly, it is endeavoring to venture beyond compliance and promote an ethical corporate culture guided by the principles of accountability, integrity, fairness and transparency.

Authority and Responsibility

PLDT's corporate governance structure clearly establishes responsibilities, confers the necessary authority and provides adequate resources for the execution of such responsibilities.

Critical and central to that structure's effectiveness is the quality of service and stewardship rendered by the PLDT Board of Directors. In the Board, as well as in the individual directors, is lodged the principal responsibility for good governance and principled performance as leaders, enablers and enforcers of good corporate governance practices.

Our Board of Directors is composed of thirteen (13) qualified and competent individuals, each highly regarded in their own fields, who bring together complementary skills and expertise, and the requisite independence, probity and diligence in the exercise of their fiduciary duties. Our Board has three (3) independent directors in Rev. Fr. Bienvenido F. Nebres, S.J., Mr. Pedro E. Roxas and Mr. Alfred V. Ty who have been selected on the basis of specific independence criteria set out under applicable laws and rules, and in our By-Laws and Corporate Governance Manual¹. A majority of the directors are non-executive directors and only three (3) directors are at the same time company executives.

The position of Chairman of the Board is separate from that of the Chief Executive Officer, not only as a matter of compliance, but also because of the indubitable benefits such a separation creates from a commercial and governance perspective. PLDT Chairman Manuel V. Pangilinan and PLDT President and CEO Napoleon L. Nazareno nonetheless share the responsibility of elevating good governance and principled performance to a high strategic priority for the Company.

Our Board met fifteen (15) times in 2011. Of this number, eleven (11) were regular meetings (including the organizational meeting) and four (4) were special meetings. The Chairman of the Board, the President and CEO, and one of the three independent directors attended all of these Board meetings. The two (2) other independent directors attended fourteen (14) of the fifteen (15) meetings. A majority of the independent directors was present in all the Board meetings. Collective attendance by directors in all of the meetings is more than seventy five percent (75%). In the annual stockholders' meeting, eleven (11) directors were present. In 2011, the total amount of *per diem* provided for the Board of Directors was Php 31,600,000.

¹ The number of independent directors in the PLDT Board exceeds that required under the Securities Regulation Code and its Implementing Rules and Regulations, which is at least two Independent Directors or such number of Independent Directors which constitutes at least 20% of the total number of directors, whichever is lesser.

| Name of Director | Jan 25 | Feb 24 | Mar 1 | Mar 29 | May 10 | Jun 14 ⁹ | Jun 14 ¹⁰ | Jun 14 ¹¹ | Jul 5 | Aug 2 | Sep 20 | Sep 23 | Oct 6 | Nov 3 | Dec 6 | Dec 8 |
|--|--------|--------|-------|--------|--------|---------------------|----------------------|----------------------|-------|-------|--------|--------|-------|-------|-------|-------|
| Manuel V. Pangilinan | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Napoleon L. Nazareno | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Helen Y. Dee | ✓ | ✓ | ✓ | ✓ | ✓ | x | X | x | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ | x |
| Ray C. Espinosa | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ |
| James L. Go ¹ | - | - | - | - | - | - | - | - | - | - | - | - | - | ✓ | ✓ | ✓ |
| Setsuya Kimura ² | - | - | - | - | - | - | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tatsu Kono ³ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | - | - | - | - | - | - | - | - |
| Bienvenido F. Nebres* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Takashi Ooi ⁴ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | x | - | - |
| Hideaki Ozaki ⁵ | - | - | - | - | - | - | - | - | - | - | - | - | - | - | ✓ | x |
| Ma. Lourdes C. Rausa-Chan ⁶ | - | - | - | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | x | ✓ | ✓ | ✓ | x |
| Oscar S. Reyes ⁷ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Albert F. Del Rosario ⁸ | ✓ | ✓ | X | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Pedro E. Roxas* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Juan B. Santos | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | ✓ | x | ✓ | ✓ | ✓ |
| Tony Tan CakTiong | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Alfred V. Ty* | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

*Independent Director
¹ Elected effective November 3, 2011
² Elected effective July 5, 2011
³ Resigned effective July 5, 2011
⁴ Resigned effective December 6, 2011
⁵ Elected effective December 6, 2011
⁶ Elected effective March 29, 2011
⁷ Resigned effective November 3, 2011
⁸ Resigned effective March 25, 2011
⁹ Regular Meeting
¹⁰ Annual Stockholders' Meeting
¹¹ Organizational Meeting

Our directors take part in an annual assessment process whereby they are able to review and evaluate the performance of the whole Board, the Board Committees and the individuals that comprise these bodies. The assessment includes an opportunity to evaluate the performance of the CEO. This process has proven to be useful in identifying the Board's strengths and areas for improvement and eliciting individual directors' feedback and views on the Company's strategies, performance and future direction.

Corporate governance is a field that is dynamic and full of new ideas. Our directors stay abreast with the latest developments relevant to their fiduciary duties by, among other means, attending an annual corporate governance enhancement session, facilitated by known international experts on the subject. For 2011, the Board of Directors had a lively discussion with Mr. Steven John Priest on the topic *Performance, Principles and People*. Mr. Priest talked about Board responsibilities in the areas of governance and compliance risks, culture and leadership. He also discussed recent developments in relevant legislation and regulations in the United States and the United Kingdom, as well as emerging best practices on governance, ethics and compliance, with focus on directors' qualifications and independence, executive compensation, and succession planning.

Finally, our Board is mindful of and puts equal importance to the Company’s corporate social responsibilities. Consistent with the PLDT Group’s Corporate Social Responsibility Statement, it strives to partner the Company’s resources, expertise, and business objectives with pressing societal issues. The PLDT Group and the PLDT Smart Foundation have continuing projects in the areas of the environment and education. The PLDT Group also continues to leverage on its business expertise to develop and implement innovative projects in health, community and livelihood development, and youth development and sports. All these in the spirit of the principle that “doing well” as a business entity means “doing good” as a corporate citizen.

Board Committees

Active and functional Board Committees are crucial to the effective performance of the Board as a whole. Our Board is ably assisted by the Advisory Committee. The Advisory Committee is composed of former Chief Justice Artemio V. Panganiban, as an independent member, Mr. Roberto R. Romulo, Mr. Benny S. Santoso, Mr. Orlando B. Vea, Mr. Christopher H. Young, Mr. Oscar S. Reyes, and Mr. Washington Z. Sycip. The total *per diem* given to the members of the Advisory Committee in 2011 was Php 15,800,000. Below is a table indicating the attendance of the members of the Advisory Committee in Board meetings.

In addition, our Board is supported by four (4) standing committees namely, the Audit Committee, Governance and Nomination Committee, Executive Compensation Committee and Technology Strategy Committee. All of these committees have their respective charters that clearly define their responsibilities and functions. All of the members of the Audit Committee are independent directors while majority of the voting members of the Governance and Nomination and Executive Compensation Committees are independent directors.

| | Jan 25 | Feb 24 | Mar 1 | Mar 29 | May 10 | Jun 14 ² | Jun 14 ³ | Jul 5 | Aug 2 | Sep 19 | Sep 23 | Oct 6 | Nov 3 | Dec 8 | Dec 8 |
|-----------------------------|--------|--------|-------|--------|--------|---------------------|---------------------|-------|-------|--------|--------|-------|-------|-------|-------|
| Artemio V. Panganiban | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Roberto R. Romulo | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Benny S. Santoso | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Orlando B. Vea | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Christopher H. Young | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ |
| Oscar S. Reyes ¹ | - | - | - | - | - | - | - | - | - | - | - | - | ✓ | ✓ | ✓ |
| Washington Z. Sycip | ✓ | ✓ | ✓ | ✓ | x | ✓ | ✓ | ✓ | ✓ | ✓ | x | x | x | ✓ | ✓ |

¹ Appointed on November 3, 2011
² Regular Meeting of the Board of Directors
³ Organizational Meeting of the Board of Directors

Audit Committee

The primary purpose of the Audit Committee 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; 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 Audit Committee is composed of three (3) independent directors, and four (4) advisors. Each of the members of the Audit Committee is financially literate and one (1) of the advisors is a certified public accountant with financial management expertise. The revised charter of the Audit Committee 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>

In 2011, the Audit Committee's activities with respect to the external auditor, Sycip, Gorres and Velayo (SGV & Co.), included: discussions on SGV & Co.'s report on the results of the integrated audit of 2010 financial statements prepared in accordance with the Philippine Financial Reporting Standards (PFRS) and International Financial Reporting Standards (IFRS) and of the internal controls over financial reporting (ICFR), as well as the results of internal and external quality reviews required on SGV & Co.; review and approval of the engagements of SGV & Co. to conduct a special audit of Netgames Inc. and SAS 70 Type II audit of ePLDT's Vitro Data Center, to perform advisory services regarding sustainability reporting in relation to PLDT's preparation of a sustainability report for 2011, and to conduct a tax review of Pilipinas Global Network, Ltd. (PGN) in relation to PGN's international programming operations in the Middle East, Europe and the United States of America; evaluation of SGV & Co.'s performance for 2010, with the Audit Committee resolving to re-appoint SGV & Co. as PLDT's external auditor for year 2011; review of SGV & Co.'s integrated plan for the audit of the 2011 financial statements and review of the ICFR of PLDT and its subsidiaries; and discussion on SGV & Co.'s status report on the integrated audit of the 2011 financial statements and ICFR.

With respect to the internal audit organization, the Audit Committee reviewed and noted or approved the Internal Audit and Fraud Risk Management Group's (IAFRMG) performance report for 2010, PLDT's internal audit plan for 2011 (original and updated), the revised PLDT Internal Charter (subsequently endorsed to and approved by the Board), and the IAFRMG head's confirmation of the organizational independence of the PLDT internal audit organization. It

discussed the periodic status reports submitted by internal audit regarding the PLDT Group’s Sarbanes-Oxley – Section 404 (SOX 404) compliance readiness as of yearend 2010 and as of yearend 2011, the major internal audit and fraud risk management activities and accomplishments and updates regarding the internal audit organization.

Insofar as financial reporting and controls are concerned, the Audit Committee, together with PLDT Finance Officers and the external auditor, reviewed PLDT’s audited financial statements for 2010 prepared in accordance with PFRS and IFRS and the final results and report of SGV & Co.’s integrated audit of 2010 PFRS and IFRS financial statements and ICFR. It also reviewed with Finance Officers PLDT’s unaudited consolidated financial results and reports for the first quarter of 2011, the first six months ended June 30, 2011, and the nine months ended September 30, 2011.

The Audit Committee also reviewed and approved the following: Fourth quarter 2010 report (SEC Form 17-C) with PFRS consolidated financial statements, 2010 PLDT-Parent Annual Report to the National Telecommunications Commission (NTC), 2010 PLDT-Parent BIR Financial Statements; and PLDT Group’s Annual Report in Form 17-A (for Philippine filing) and Form 20-F (for US filing).

Relative to governance, general internal controls and risk management, the Audit Committee reviewed the status report on whistleblowing complaints submitted by the Corporate Governance Office and discussed with the General Counsel the status of the Company’s compliance with applicable laws and updates on significant legal matters. The Audit Committee had discussions with the relevant business and operational units on matters

| Voting Members | Meetings attended |
|----------------------------------|-------------------|
| Bienvenido F. Nebres (Chairman)* | 8/8 |
| Pedro E. Roxas* | 7/8 |
| Alfred V. Ty* | 8/8 |
| Advisors | |
| Setsuya Kimura ¹ | 4/4 |
| Tatsu Kono ² | 4/4 |
| James L. Go ³ | 1/1 |
| Corazon S. dela Paz-Bernardo | 8/8 |
| Roberto R. Romulo | 8/8 |

*Independent Director

¹ Effective July 5, 2011

² Member until July 5, 2011

³ Member beginning November 3, 2011

concerning information and business systems, tax management and regulatory developments. It also conferred with the Enterprise Risk Management Officer regarding PLDT Group’s enterprise risk management processes and activities, including identified risks and responses for 2011.

The Audit Committee had eight (8) meetings for the year 2011 and a total of Php 3.60 million was paid as *per diem* to its members and advisors who attended the said meetings.

Governance and Nomination Committee (GNC)

The primary purposes of the Committee 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 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 revised charter of the GNC may be accessed and downloaded from the PLDT website 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 discussed and evaluated the results of the Board Assessment for 2010 and the GNC Evaluation/ Self-Assessment. The consolidated results of the Board Assessment, along with the GNC's recommended actions, the GNC Assessment results and Report on Activities for 2010 were submitted to and noted by the Board. The GNC also provided assistance to the Board in conducting the Board Performance Assessment for 2011.

In compliance with the requirement to conduct a periodic review of the CG Policies, the GNC reviewed and assessed the PLDT Manual on Corporate Governance, Expanded Whistleblowing Policy, Policy on Gifts, Entertainment and Sponsored Travel, and Supplier/Contractor Relations Policy. The review showed that these policies remain to be adequate and compliant and required no amendments. However, the GNC noted that certain guidelines were necessary to ensure conformance with newly-enacted legislation and regulations from both the Philippines and the United States. Measures were likewise approved by the GNC to enhance awareness of and compliance with these policies, particularly the Expanded Whistleblowing Policy, by the Company's personnel. The GNC also reviewed and noted the conflict of interest disclosures of certain key personnel.

The GNC gave directives pertaining 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 determined the content of the Company’s annual corporate governance enhancement session for the PLDT Board and officers and selected the speaker/resource person for said session. It also selected the over-all theme for 2012 corporate governance communication materials.

In the performance of its nomination function, the GNC screened persons nominated as directors or independent directors and determined and recommended the final list of director/independent director nominees for election in the 2011 annual meeting of stockholders. It also screened nominees for appointment in the vacancies in the Board and the Advisory Board/Committee which arose during 2011. In screening the nominees, the GNC takes into account the nominee’s ability to perform the roles of a director diligently and efficiently, the nominee’s judgment, skills and experience with other business organizations of the size and complexity comparable to that of the Company, the interplay of a nominee’s experience with the experience of other directors, and any conflict of interest.

| Voting Members | Meetings attended/ Number of meetings |
|---------------------------------|--|
| Manuel V. Pangilinan (Chairman) | 5/5 |
| Pedro E. Roxas* 1 | ¾ |
| Alfred V. Ty* | 5/5 |
| Bienvenido F. Nebres* | 5/5 |
| Setsuya Kimura ² | 3/3 |
| Tatsu Kono ³ | 2/2 |
| Oscar S. Reyes ⁴ | 1/1 |
| Non-Voting Members | |
| Artemio V. Panganiban | 5/5 |
| Menardo G. Jimenez, Jr. | 4/5 |
| Ma. Lourdes C. Rausa-Chan | 4/5 |

*Independent Director
1 Member beginning January 25, 2011
2 Member beginning July 5, 2011
3 Member until July 5, 2011
4 Member until January 25, 2011

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. Finally, it reviewed the qualifications and recommended the appointment of new hires and promotions to various officer ranks.

The GNC held five (5) meetings in 2011 and a total of Php2.775 million was paid as *per diem* to its

members who attended the said meetings.

Executive Compensation Committee (ECC)

The primary purposes of the ECC are to: provide guidance and assistance to the Board with respect to the development of a compensation philosophy consistent with the culture, strategy

and control environment of the Company; oversee the development and administration of the Company’s executive compensation programs; and assist the Board in the areas of performance evaluation, succession planning and the professional development programs for officers. The 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 one (1) non-voting member, who is the Human Resources Group Head of the Company. 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>

For its major accomplishments in 2011, the ECC discussed and approved the 2010 Variable Pay Payout corresponding to the level of core income target that was achieved and the 2011 Variable Pay Targets. It also discussed and approved the 2011 Merit Increase of Officers and Executives and directed that increases for officers and executives and the application of compensation policies discussed and approved by the ECC should be the same for PLDT, Smart and SPi Global. Finally, the ECC discussed and approved the increase in per diem for board members of the fixed line subsidiaries.

| Voting Members | Meetings attended/ number of meetings |
|--|--|
| Manuel V. Pangilinan (Chairman) ¹ | 1/1 |
| Albert F. Del Rosario ² | 1/1 |
| Bienvenido F. Nebres ³ | 1/2 |
| Tatsu Kono ⁴ | 1/1 |
| Pedro E. Roxas* | 2/2 |
| Setsuya Kimura ⁵ | 1/1 |
| Alfred V. Ty* | 1/2 |
| Non-Voting Member | |
| Menardo G. Jimenez, Jr. | 2/2 |

*Independent Director
¹ Member beginning June 14, 2011
² Member until March 25, 2011
³ Member effective January 25, 2011
⁴ Member until July 5, 2011
⁵ Member beginning July 5, 2011

The ECC held two (2) meetings in 2011 and a total of Php750,000.00 was paid as *per diem* to its members who attended the said meetings.

Technology Strategy Committee (TSC)

The primary purpose of the TSC is to assist the Board to review and approve the strategic vision for the role of technology in the Company’s overall business strategy; fulfill its oversight responsibilities for the Company’s effective execution of its technology-related strategies; and ensure the optimized use and contribution of technology to the Company’s strategic objectives and growth targets. The TSC is composed of six (6) voting members and one (1) non-voting member. Under the revised charter of the TSC, at least one (1) member of the TSC must have at

least a general knowledge or understanding of the technologies relevant to the Company’s line of business. 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 (1) meeting in 2011 wherein the network and technology teams presented and discussed with the TSC a comprehensive update on the PLDT Technology Roadmap, possible synergies with Digitel and Sun Cellular, and developments regarding new technologies affecting the Company’s competitiveness and efficiency. A total of Php525,000.00 was given as *per diem* to its members who attended the said meeting.

| Voting Members | Meetings attended |
|---------------------------------|-------------------|
| Manuel V. Pangilinan (Chairman) | 1/1 |
| Napoleon L. Nazareno | 1/1 |
| Ray C. Espinosa | 1/1 |
| Setsuya Kimura ¹ | 1/1 |
| Oscar S. Reyes | 1/1 |
| James L. Go ² | 1/1 |
| Non-voting member | |
| Orlando B. Vea | 1/1 |

¹ Member beginning July 5, 2011
² Member beginning November 3, 2011

Management and support practices

President and CEO

It is from the tone at the top and example of the Board that the rest of the structure draws momentum to implement PLDT’s corporate governance efforts. The President and CEO provides leadership for management in developing and implementing business strategies, plans and budgets. More importantly, however, 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 President and CEO, with the assistance of the rest of PLDT’s Management, also has the responsibility to provide the Board with a balanced, understandable and accurate account of the Company’s performance, financial condition, results of operations and prospects, on a regular basis.

Internal Audit Organization

The structure also relies heavily on the contributions of PLDT's internal audit organization whose head reports functionally to the Audit Committee and administratively to the President and CEO. It is responsible for conducting, in accordance with the *International Standards for the Professional Practice of Internal Auditing*, internal audit activities which include, among others, the evaluation of the adequacy and effectiveness of controls covering the Company's financial reporting, governance, operations and information systems.

External Audit

The external auditor is appointed by the Audit Committee who reviews their qualifications, performance and independence. The external auditor undertakes independent audit and provides an objective assurance on the manner by which the Company's financial statements have been prepared and presented. To ensure objectivity in the performance of its duties, the external auditor is subject to the rules on rotation (every five [5] years); general prohibitions on hiring of staff of the external auditor; and full and appropriate disclosure and prior approval by the Audit Committee of all audit and non-audit services and related fees for such services.

Financial Reporting

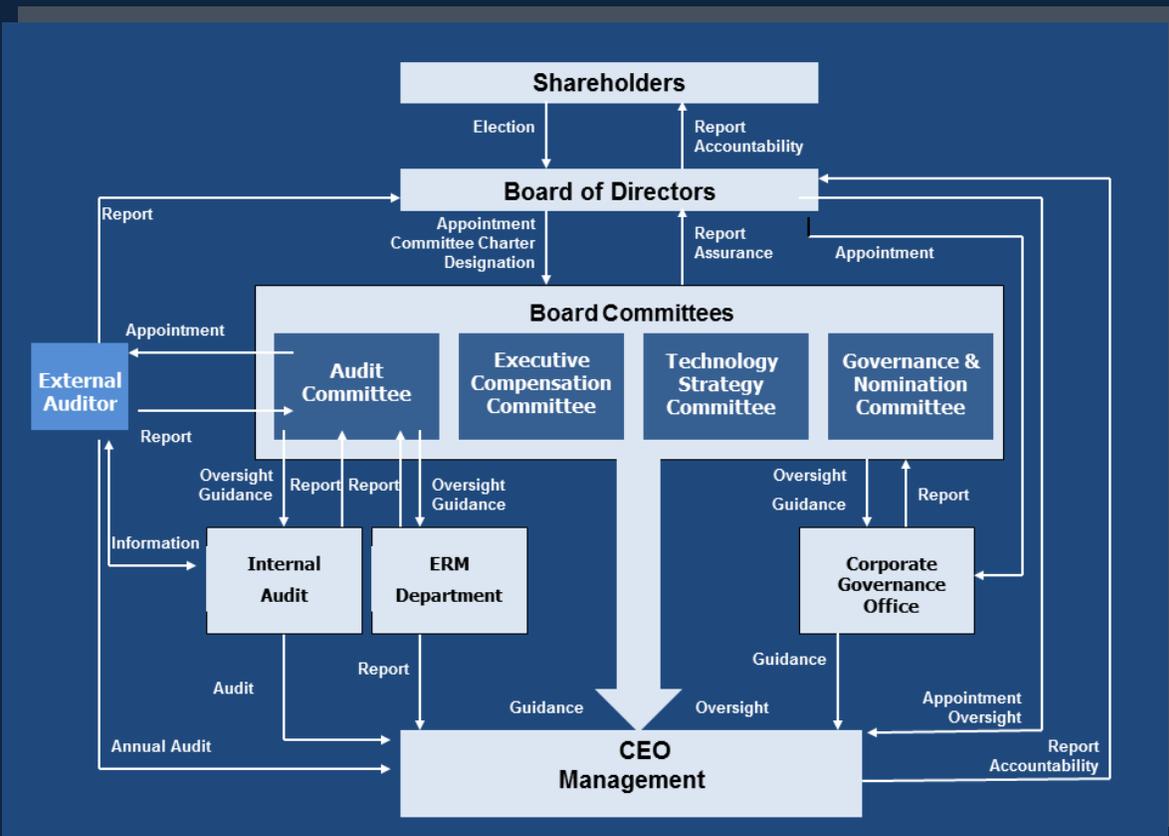
PLDT's financial reports comply with the Philippine Financial Reporting Standards (PFRS) and International Financial Reporting Standards (IFRS). The integrity of our financial reports is safeguarded by our accounting and financial principles and policies, system of internal controls, and audit process comprised of regular audits conducted by an independent external auditor and an internal audit organization. Management is responsible for the integrity of the Company's financial reports and the Board, through the Audit Committee which is composed entirely of independent directors, exercises oversight responsibility.

Enterprise Risk Management

The Enterprise Risk Management Department is in charge of managing an integrated risk management program with the goal of identifying, analysing and managing PLDT's risks to an acceptable level, so as to enhance opportunities, reduce threats, and thus sustain competitive advantage. It works in coordination with PLDT's internal audit organization.

Corporate Governance Office

PLDT has an independent Corporate Governance Office, under the leadership of a Chief Governance Officer who reports to the Chairman of the Board and the GNC. 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. The Corporate Governance Office is responsible as well for the continuing development, drafting, issuance and review of appropriate corporate governance policies, attending to reports received through the whistleblowing facility, addressing queries and providing opinions or guidance on corporate governance matters to operating units, initiating enforcement actions to ensure compliance with corporate governance policies, and maintaining a corporate governance education and communication program that sees to the development of the proper knowledge, skills, attitudes and habits that would promote voluntary observance of corporate governance policies.. Found here is a table on the corporate governance structures in PLDT.



Promoting the right behavior

Setting up structures, allocating responsibilities and apportioning authority and resources are meant to kick off the process of eventually creating the desired self-regulating culture. Establishing that culture requires well-defined starting points or baselines to serve as beacons to PLDT personnel. These starting points are established through PLDT's corporate governance policies.

PLDT's Manual on Corporate Governance (CG Manual) and Code of Business Conduct and Ethics (Code of Ethics) are PLDT's fundamental policies on corporate governance. Both incorporate the various standards required under the relevant Philippine and US laws and regulations.

The PLDT 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 discussed in the preceding section are all laid down in the CG Manual.

KEY AREAS OF COVERAGE – PLDT CG MANUAL

- The composition of our Board of Directors as well as the qualifications and grounds for disqualification for directorship;
- The requirement that at least twenty per cent (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 environment 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 CG Manual;
- The duty of the Board of Directors to promote and uphold stockholders' rights such as the right to vote, pre-emptive right, the right to inspect corporate books and records, the right to timely receive relevant information, the right to dividends, and the appraisal right;
- 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.

PLDT’s Code of Ethics was adopted to strengthen the implementation of the CG Manual. It was approved by the Board on March 30, 2004 and subsequently updated on July 11, 2006. The Code of Ethics sets out the Company’s core values of accountability, integrity, fairness and transparency. It aims to promote a culture of good corporate governance and to provide guidance in all business relationships of PLDT, its directors, officers and employees. Please refer to the box for the specific areas of coverage of the Code of Ethics.

- AREAS OF COVERAGE – PLDT CODE OF ETHICS**
- 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.

Enabling policies have also been issued to provide guidance on: the custody and care of information and the avoidance of conflicts of interest (Conflict of Interest Policy); proper handling of gifts, entertainment, and sponsored travel (Policy on Gifts, Entertainment and Sponsored Travel); maintenance of appropriate relations with suppliers, contractors and other third party business partners (Supplier/Contractor Relations Policy); and anonymous reporting of possible violations of corporate governance

policies, accounting and auditing rules and regulations or PLDT Personnel Manual and protection against retaliation on reporting employees (Expanded Whistleblowing Policy).

Pursuant to the Conflict of Interest Policy, PLDT officers, executives and employees are required to submit Conflict of Interest Disclosures. If a transaction is affected by conflict of interest, it is subject to approval by the appropriate approving authorities and the conflicted director, officer, executive or employee is prohibited from participating in any activity related to the said transaction. PLDT is progressively institutionalizing the practice of timely and transparent disclosures down to the level of rank and file employees. Our suppliers, vendors and contractors are also required to make disclosures with respect to relationships and affiliations that they or their personnel may have with any of our directors, officers, executives, and employees.

With respect to the Expanded Whistleblowing Policy, PLDT maintains a Whistleblowing Hotline and other reporting facilities, such as a dedicated electronic mailbox, post office box, and facsimile transmission system. All employees and stakeholders who come forward in good faith, regardless of rank or status, to report any of the violations described in said policy or any

act that may be considered as contrary to the Company's values of accountability, integrity, fairness and transparency may submit a complaint or disclosure on such violations. Upon receipt by the Chief Governance Officer or the Corporate Governance Office of a complaint/disclosure, a preliminary evaluation is conducted to determine the appropriate investigating unit to which the case shall be assigned for further action. The Corporate Governance Office 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 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. In all processes and activities related to a whistleblowing complaint or disclosure, utmost confidentiality is observed in order to ensure the integrity of the process and/or protect the parties or offices who are allegedly involved.

In line with all of these, PLDT has incorporated corporate governance standards in performance evaluation of personnel and has included corporate governance policy violations as a cause for disqualification from incentives and rewards in its Policy on Employee Qualification for Incentives and Rewards.

Our CG policies undergo a mandatory review every two (2) years but may be reviewed on a more frequent basis as necessary. In 2011, the Expanded Whistleblowing Policy, Policy on Gifts, Entertainment and Sponsored Travel, and the Supplier/Contractor Relations Policy went through the review process and were found to be adequate and compliant and did not require any amendment. Implementing guidelines, as may be necessary and appropriate, are issued to fill in the details of the corporate governance policies.

Reinforcements

PLDT's corporate governance education and communication activities aim to reinforce our aspiration to establish the right culture and promote the right behaviour.

As part of its education and communication program, PLDT provides continuous training for its Board and senior management. PLDT has organized and conducted five (5) 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.

As earlier mentioned, PLDT conducted its 2011 corporate governance enhancement session for its Board², through Mr. Steven John Priest. Mr. Priest also conducted a briefing for PLDT's senior management entitled, *Performance, Principles and People: A Discussion with PLDT Group Leaders*³. It delved on the environment that businesses face nowadays, the risks that confront business organizations, the appropriate culture that companies need to adopt and establish, and the leadership demanded from people in positions of responsibility. Forty-six (46) out of the sixty-one (61) active PLDT officers attended the session. All in all, fifty-seven (57) out of the sixty-one (61) active members of PLDT's senior management have attended at least one (1) corporate governance enhancement session.

PLDT also pays close attention to the educational needs of its middle management. In 2011, a special session for its executives was conducted through Mr. Keith Darcy, Executive Director of the Ethics and Compliance Officer Association (ECO) based in Waltham, Massachusetts, USA. Mr. Darcy discussed *The Role of Middle Management in Ethical Culture Building*. Sixty-one (61) executives and officers of PLDT attended the session. On the other hand, newly promoted and hired executives are required to undergo a half-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.

For its supervisory and rank and file employees, PLDT conducted a Corporate Governance Refresher Course for selected divisions. A total of eight (8) Corporate Governance Refresher Sessions were conducted for the Information Systems Sector⁴. The whole day seminar, entitled *Educational Intervention on Ethical Compliance and Procurement Management*, was a joint effort of the Corporate Governance Office together with the Procurement Management and Vendor Management Divisions of the Supply Chain, Asset Protection and Management Group.

PLDT also carried out a seminar especially developed for field service personnel entitled *Values at Work*. The module shows how the values of accountability, integrity, fairness and transparency can be employed as effective tools in the performance of duties and functions in the Company. The workshop at the same time seeks to affirm the participants' commitment to PLDT's core values. Finally, PLDT requires newly-hired employees and executives to undergo a Corporate Governance Orientation.

²Conducted on December 8, 2011.

³Conducted on December 7, 2011.

⁴Executives of this sector also went through the refresher course.

Apart from face to face training, PLDT has on-line training modules for its employees. PLDT executives with the rank of manager, senior manager and assistant vice president have complied with the requirement to access and complete an online training course on the PLDT *Expanded Whistleblowing Policy*. Supervisory and rank and file employees, on the other hand, have taken and completed a module on the *PLDT Conflict of Interest Policy*⁵.

Education and training is supplemented by the production and dissemination of relevant corporate governance communication materials as follows:

- a. Thematic posters and calendars – In 2011, the theme was “Values Instilled in Us as Children” which encouraged all company personnel to recall how they learned the values of accountability, integrity, fairness and transparency as children and to re-apply these values in their professional and personal lives.
- b. Ripples e-newsletter – This is a monthly newsletter distributed by email and also accessible through the PLDT CG Website, which features stories, news and developments that seek to inspire observance of PLDT’s corporate governance values.
- c. *Corporate Governance Newsbriefs* – These contain summaries of news articles from global on-line sources and are released weekly to PLDT directors and select PLDT officers and executives.
- d. Periodic advisories on corporate governance policies - The latest advisory which was released in December 2011 pertained to the ethical handling and treatment of gifts during and beyond the Christmas gift giving season.

PLDT maintains its active membership with the US-based Ethics and Compliance Officer Association, or ECOA, the largest association of ethics and compliance professionals in the world. PLDT is a sponsoring partner – member of the ECOA and regularly attends and participates in ECOA activities, particularly the Annual Ethics and Compliance Conference⁶. Our membership at the ECOA gives us access to its vast online library on CG and related topics, opportunities to interact with other corporate governance and ethics professionals around the world, and a chance to benchmark our governance practices against those of leading companies. Atty. Elmer Nitura, Corporate Governance Officer of Smart Communications Inc., is on the second year of his three year term as a member of the ECOA’s Board of Directors. Atty. Nitura is one of only three (3) non-Americans in the ECOA Board and is the only one from Asia.

PLDT is a founding member of the Good Governance Advocates and Practitioners of the Philippines (GGAPP). GGAPP is an organization of corporate governance and ethics and

⁵ Compliance with both online modules is at more than 99% of the target learners as of the end of 2011.

⁶ The latest conference was held in September 20-23, 2010 at Seattle, Washington State, USA.

compliance officers from various companies in the Philippines and conducts regular monthly meetings to discuss collective efforts aimed at improving corporate governance practices in the country. Finally, PLDT regularly attends activities organized by the ICD such as Breakfast Roundtables and corporate governance working sessions.

Affirmation

In 2011, PLDT’s corporate governance initiatives and efforts were recognized by various award-giving bodies such as the Institute of Corporate Directors, Finance Asia Magazine and Asiamoney Magazine. The table below summarizes the awards received by the Company and its officers.

The recognition of our efforts reflects the Company’s commitment to corporate governance and serves as a reminder of the need to continuously and steadily improve in order to deliver on our responsibility to our stakeholders. The well-being of an enterprise, after all, is not measured solely by the recognition it receives, or by its robust financial reports.

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| <p>Institute of Corporate Directors</p> <ul style="list-style-type: none">• Platinum Awardee – Corporate Governance Scorecard <p>Finance Asia Magazine</p> <ul style="list-style-type: none">• Best in Corporate Governance in the Philippines• Best Managed Company• Best in Investor Relations• Company Most Committed to a Strong Dividend Policy• Best Chief Executive – Napoleon Nazareno• Third Best CSR Efforts in the Philippines <p>Asiamoney Magazine</p> <ul style="list-style-type: none">• Best Over-all in Corporate Governance in the Philippines• Best for Disclosure and Transparency in the Philippines• Best for Management and Board of Directors in the Philippines• Best for Shareholder Rights and Equitable Treatment in the Philippines• Best in Investor Relations (award shared with two others) |
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Neither is it discernible by checking if it has structures and policies on corporate governance and business ethics; certainly not by the sums of money it dispenses for philanthropy. Rather, a company that has an honest understanding of its areas for improvement, a full grasp of its strengths, a realization of its responsibility to its stakeholders, and a firm commitment by leadership to values and principles, stands the best chance to flourish in even the most trying times for business. This is what PLDT aspires to do as its leadership drives all levels of the company to deliver outstanding results and at the same time live out and observe the values of accountability, integrity, fairness and transparency.