



June 16, 2011

The Philippine Stock Exchange  
4<sup>th</sup> Floor PSE Centre  
Exchange Road, Ortigas Center  
Pasig City

Attention: Ms. Janet A. Encarnacion  
Head, Disclosure Department

Ladies and Gentlemen:

We submit herewith a copy of SEC Form 17-C with a copy of Standard & Poor's latest ratings report on Philippine Long Distance Telephone Company.

Respectfully yours,

FLORENTINO D. MABASA, JR.  
Assistant Corporate Secretary

FDM:amq  
Enc.



June 16, 2011

SECURITIES & EXCHANGE COMMISSION  
Money Market Operations Department  
SEC Building, EDSA  
Mandaluyong City

Attention : Director Justina F. Callangan  
Corporations Finance Department

Gentlemen:

Re : Philippine Long Distance Telephone Company  
SEC Registration No. PW-55

We submit herewith three (3) copies of SEC Form 17-C with a copy of Standard & Poor's latest ratings report on Philippine Long Distance Telephone Company.

Respectfully yours,

FLORENTINO D. MABASA, JR.  
Assistant Corporate Secretary

FDM:amq  
Enc.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-C**

**CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE  
AND SRC RULE 17.1**

1. June 16, 2011  
(Date of earliest event reported)
2. SEC Identification Number PW-55
3. BIR Tax Identification No. 000-488-793
4. PHILIPPINE LONG DISTANCE TELEPHONE COMPANY  
Exact name of registrant as specified in its charter
5. PHILIPPINES  
Province, country or other jurisdiction  
of Incorporation
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. 9<sup>th</sup> Floor MGO Building  
Legaspi corner dela Rosa Streets, Makati City  
Address of principal office
- 1200  
Postal Code
8. (632) 816-8553  
*Registrant's telephone number, including area code*
9. Not Applicable  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC  

Title of Each Class	Number of Shares of Common Stock Licensed and Amount of Debt Outstanding
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11. Item 9 – Other Events

Attached hereto is a copy of Standard & Poor's latest ratings report on Philippine Long Distance Telephone Company.

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

PHILIPPINE LONG DISTANCE  
TELEPHONE COMPANY



FLORENTINO D. MABASA, JR.  
Assistant Corporate Secretary

Date: June 16, 2011

## Philippine Long Distance Telephone Co.

**Primary Credit Analyst:**

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# Philippine Long Distance Telephone Co.

## Major Rating Factors

### Weaknesses:

- Country, macroeconomic, and transfer and convertibility risk of the Philippines
- High price competition with slowing domestic cellular subscriber growth

### Strengths:

- Leading market position
- Solid cash flow measures

### Corporate Credit Rating

Foreign Currency

BB+/Stable/--

ASEAN Regional Scale

axBBB+/-/--

## Rationale

The rating on Philippine Long Distance Telephone Co. (PLDT) reflects the country, macroeconomic, and transfer and convertibility (T&C) risk of the Philippines (foreign currency BB/Stable/B; local currency BB+/Stable/B; ASEAN scale axBBB+/axA-2). The rating also reflects the high price competition in the domestic market with slowing cellular subscriber growth. PLDT's leading position in the domestic market, diversified services, and solid cash flow measures temper these weaknesses. Our 'BB+' T&C assessment for the Philippines constrains the ratings on PLDT.

Subscriber growth in the Philippine cellular market has slowed, with cellular penetration, including multiple subscriber identity module (SIM) ownership, of more than 90%. We expect that future growth will continue to come from the mass-market segments, particularly from the outskirts of Metro Manila, which have lower average revenue per user.

We therefore believe that the three main players--PLDT, Globe Telecom Inc. (not rated), and Digital Telecommunications Philippines Inc. (Digitel, not rated)--will continue to pursue aggressive pricing and promotions to build market share. Nevertheless, PLDT's plan to acquire Digitel at an estimated US\$2.3 billion in enterprise value might somewhat ease competition. The proposed acquisition is subject to regulatory approvals; shareholders have already approved it. Overall, regulatory issues remain a moderate credit risk for the industry.

We expect PLDT to retain its position as the leading integrated telecommunications service provider in the Philippines. As of March 31, 2011, the company had a subscriber base of about 46.7 million in the wireless market, 1.84 million in the fixed-line segment, and 2.1 million in the broadband segment. This resulted in a significant 55% to 60% subscriber market share across all segments. We expect the acquisition of Digitel to further strengthen PLDT's competitive position and broadband growth opportunities. As of May 31, 2011, First Pacific Group (not rated) owned 26% in PLDT while Nippon Telegraph & Telephone Corp. (AA/Stable/A-1+), through its subsidiaries, owned 21%.

PLDT's operating performance deteriorated marginally in 2010 with 2.4% decline in revenue and 150 basis points reduction in its strong EBITDA margins to 61.6%. The weaker operating performance is due to the increasing use of unlimited offers and fixed-rate (bucket) plans, intense price-based competition, multiple SIM card ownership, appreciation of the Philippine peso, and greater use of social networking websites for communication. We expect

these market attributes to continue to dampen operating performance. But the effects will be offset by our projections of a moderate Philippine economic growth of 5.0%-5.5% annually over the next three years and increasing demand for broadband.

The proposed acquisition of Digitel could help improve PLDT's operating and capital expenditure efficiency. Nevertheless, we expect the benefit to be limited considering that Digitel is significantly smaller than PLDT and has lower operating margins.

PLDT's cash flow protection measures remain strong, with strong positive free operating cash flow (FOCF) of more than Philippine Peso (PHP) 40 billion a year. In addition, the ratio of funds from operations (FFO) to adjusted debt is more than 60%, and adjusted debt to EBITDA has been less than 1.5x for at least the past five years.

We expect PLDT's financial metrics to remain strong although FOCF is likely to decline after factoring an increase in projected capital expenditure to about PHP34.4 billion in 2011. We also do not expect the proposed acquisition to have a significant negative impact on the company's financial metrics because the acquisition is largely equity funded. Nevertheless, PLDT has an aggressive capital structure with the ratio of adjusted debt to capital of more than 50%.

#### **Liquidity**

We believe PLDT has adequate liquidity. We expect the company's sources of liquidity to exceed its uses by about 1.2x in 2011. We anticipate that PLDT's net liquidity sources will remain positive even if EBITDA declines by 20%. The company also has significant headroom in its covenants.

As of Dec. 31, 2010, PLDT's liquidity sources include cash and short-term investments of PHP37 billion, of which we believe the company needs PHP15 billion for regular operations. The sources also include our projected funds from operations of about PHP70 billion in 2011 and unused credit facilities of about PHP20 billion. PLDT's unused facilities mainly comprise short-term facilities that we expect the company to be able to rollover given its strong banking relations. Uses of liquidity include capital expenditure of about PHP34 billion, debt maturities of about PHP14 billion, equipment payables of about PHP21 billion, and projected dividend of about PHP27 billion.

PLDT's foreign currency risk exposure is moderate, in our view. As of Dec. 31, 2010, 45% of the company's total consolidated debt is foreign currency-denominated, of which about 25% was unhedged. Interest rate risk is manageable because about three-fourth of PLDT's debt is based on fixed rates.

#### **Outlook**

The stable outlook on the rating on PLDT reflects the stable outlook on the sovereign rating. It also reflects our expectation that PLDT's operating performance will be stable and the company will generate positive free cash flows in the next two years at least.

We could raise the foreign currency rating on PLDT only after we raise the 'BB+' T&C risk assessment for the Philippines. We could downgrade the company if:

- Any lowering of the rating on the sovereign prompts a lowering of the T&C risk assessment or a deterioration in country risk factors;
- The company's financial risk profile deteriorates, including a ratio of debt to EBITDA above 2.0x, on a

- sustainable basis due to its shareholders' return initiatives, such as dividend payout, share buyback, or investments; or
- PLDT expands into sectors that are exposed to the uncertain operating and regulatory environment in the Philippines.

Table 1

Philippine Long Distance Telephone Co.--Peer Comparison					
Industry Sector: Telecom					
	Philippine Long Distance Telephone Co.	PT Indosat Tbk.	Axiata Group Bhd.	Vimpel-Communications (JSC)	PT Telekomunikasi Selular
Rating as of June 14, 2011	(FC)BB+/Stable/--; axBBB+/-	BB/Stable/--; axBBB/-	BBB+/Stable/--; axA+/-	BB/Negative/--	BBB-/Stable/-
	2010	2010	2010	2010*	2009
Revenues (mil. US\$)	3,296.5	2,200.7	5,064.1	9,755.6	4,411.7
(Mil. Mix curr.)	PHP	IDR	MYR	\$	IDR
Revenues	144,459.0	19,796,515.0	15,620.7	9,755.6	41,582,086.8
EBITDA	89,562.0	9,630,431.0	7,173.7	4,647.6	27,433,896.5
Net income from continuing operations	40,217.0	647,174.0	1,770.4	1,497.0	13,160,223.1
Funds from operations (FFO)	73,181.1	7,758,274.0	5,744.1	3,452.6	22,091,892.8
Capital expenditure	32,074.7	6,495,146.0	3,065.2	955.0	13,306,469.8
Free operating cash flow	48,031.4	1,891,535.0	3,107.3	2,699.1	8,506,791.6
Discretionary cash flow	7,409.4	1,120,977.0	3,107.0	2,333.6	791,507.6
Cash and short-term investments	15,000.0	2,075,270.0	6,277.4	2,467.0	3,641,265.5
Debt	117,836.1	29,051,943.8	10,838.2	6,545.7	12,152,707.2
Equity	93,277.4	18,063,610.3	20,278.6	11,656.7	30,960,482.0
Debt and equity	211,113.4	47,115,554.0	31,116.8	18,202.4	43,113,189.2
<b>Adjusted ratios</b>					
Annual revenue growth (%)	(2.4)	5.2	17.3	9.0	11.8
EBITDA margin (%)	62.0	48.6	45.9	47.6	66.0
EBITDA interest coverage (x)	10.9	4.1	10.6	7.6	25.2
EBIT interest coverage (x)	7.9	1.4	6.5	4.6	17.5
Return on capital (%)	30.5	6.5	13.7	17.8	44.7



Table 1

Philippine Long Distance Telephone Co.--Peer Comparison (cont.)					
FFO/debt (%)	62.1	26.7	53.0	52.7	181.8
Free operating cash flow/debt (%)	40.8	6.5	28.7	41.2	70.0
Debt/EBITDA (x)	1.3	3.0	1.5	1.4	0.4
Total debt/debt plus equity (%)	55.8	61.7	34.8	36.0	28.2

\*12 months to Sept. 30. FC--Foreign currency. PHP--Philippine peso. IDR--Indonesian rupiah. MYR--Malaysian ringgit.

Table 2

Philippine Long Distance Telephone Co.--Financial Summary					
Industry Sector: Telecom					
	2010	2009	2008	2007	2006
(Mil. PHP)					
Revenues	144,459.0	147,993.0	145,582.0	137,958.0	127,943.0
EBITDA	89,562.0	93,344.6	91,894.1	87,761.5	86,125.1
Net income from continuing operations	40,217.0	39,781.0	34,635.0	36,004.0	35,138.0
Funds from operations (FFO)	73,181.1	80,894.2	75,134.6	74,066.4	71,231.2
Capital expenditure	32,074.7	30,886.1	27,818.0	26,456.8	22,573.8
Free operating cash flow	48,031.4	55,673.2	48,768.5	54,890.6	40,499.3
Discretionary cash flow	7,409.4	16,843.2	12,100.5	26,877.6	26,042.3
Cash and short-term investments	15,000.0	15,000.0	15,000.0	15,000.0	15,000.0
Debt	117,836.1	116,356.9	90,594.0	84,467.5	108,373.8
Equity	93,277.4	93,100.9	101,822.1	108,967.6	96,615.3
Debt and equity	211,113.4	209,457.8	192,416.1	193,435.1	204,989.1
Adjusted ratios					
Annual revenue growth (%)	(2.4)	1.7	5.5	7.8	2.8
EBITDA margin (%)	62.0	63.1	63.1	63.6	67.3
EBITDA interest coverage (x)	10.9	11.1	12.0	10.2	6.9
EBIT interest coverage (x)	7.9	8.0	8.7	7.0	4.2
Return on capital (%)	30.5	33.3	34.4	30.0	27.0
FFO/debt (%)	62.1	69.5	82.9	87.7	65.7
Free operating cash flow/debt (%)	40.8	47.8	53.8	65.0	37.4
Debt/EBITDA (x)	1.3	1.2	1.0	1.0	1.3
Debt/debt and equity (%)	55.8	55.6	47.1	43.7	52.9
PHP--Philippine peso.					

Table 3

**Reconciliation Of Philippine Long Distance Telephone Co. Reported Amounts With Standard & Poor's Adjusted Amounts**

--Fiscal year ended Dec. 31, 2010--

**Philippine Long Distance Telephone Co. reported amounts (mil. PHP)**

	<b>Debt</b>	<b>Shareholders' equity</b>	<b>EBITDA</b>	<b>Interest expense</b>	<b>Cash flow from operations</b>	<b>Dividends paid</b>	<b>Capital expenditure</b>
Reported	126,859.0	97,069.0	88,605.0	6,551.0	77,260.0	41,080.0	28,766.0
<b>Standard &amp; Poor's adjustments</b>							
Operating leases	7,003.5	--	385.0	385.0	3,656.5	--	4,018.7
Debt-like hybrids	4,419.0	(4,419.0)	--	458.0	(458.0)	(458.0)	--
Postretirement benefit obligations	--	311.4	(820.0)	--	(166.4)	--	--
Surplus cash and near cash investments	(22,347.0)	--	--	--	--	--	--
Capitalized interest	--	--	--	710.0	(710.0)	--	(710.0)
Share-based compensation expense	--	--	1,392.0	--	--	--	--
Asset retirement obligations	873.6	--	--	97.0	(91.0)	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	(3,881.0)	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	(2,429.0)	--	--
Minority interests	--	316.0	--	--	--	--	--
Debt - Accrued interest not included in reported debt	1,028.0	--	--	--	--	--	--
Total adjustments	(9,022.9)	(3,791.7)	957.0	1,650.0	(4,078.9)	(458.0)	3,308.7

**Standard & Poor's adjusted amounts**

	<b>Debt</b>	<b>Equity</b>	<b>EBITDA</b>	<b>Interest expense</b>	<b>Funds from operations</b>	<b>Dividends paid</b>	<b>Capital expenditure</b>
Adjusted	117,836.1	93,277.4	89,562.0	8,201.0	73,181.1	40,622.0	32,074.7

PHP--Philippine peso.

**Ratings Detail (As Of June 15, 2011)\*****Philippine Long Distance Telephone Co.**

Corporate Credit Rating

Foreign Currency

BB+/Stable/--

ASEAN Regional Scale

axBBB+/-/--

Senior Unsecured (4 Issues)

BB+

**Corporate Credit Ratings History**

03-Nov-2005 Foreign Currency

BB+/Stable/--

11-Jul-2005

BB-/Negative/--

17-Jan-2005

BB-/Stable/--

21-May-2009 ASEAN Regional Scale

axBBB+/-/--

**Business Risk Profile**

Satisfactory

**Financial Risk Profile**

Intermediate

**Ratings Detail (As Of June 15, 2011)<sup>(cont.)</sup>**

**Debt Maturities**

Fiscal 2011: PHP34.76 billion\*

Fiscal 2012: PHP25.42 billion\*\*

Fiscal 2013: PHP17.15 billion\*\*

Fiscal 2014: PHP19.5 billion

Thereafter: PHP28.62 billion

\*Includes PHP21 billion of equipment payables.

\*\*Includes PHP6 billion of equipment payables.

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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