

Rating Action: Moody's upgrades PLDT to Baa2; outlook stable

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Approximately USD234 Million of Debt Securities Affected

Hong Kong, October 29, 2012 -- Moody's Investors Service has upgraded the local currency issuer rating and foreign currency bond rating of Philippine Long Distance Telephone Company (PLDT) to Baa2 from Baa3.

The ratings outlook is stable.

RATINGS RATIONALE

The rating action follows Moody's decision to upgrade the long-term foreign-currency rating of the Republic of Philippines to Ba1 from Ba2 and the foreign-currency country ceiling to Baa2 from Baa3. The ratings outlook is stable.

"Despite its strong fundamental credit quality, PLDT's ratings were previously constrained at the Baa3 level by the two-notch differential with the then sovereign rating of Ba2. The upgrade of the sovereign rating to Ba1 therefore allows Moody's to upgrade PLDT's ratings to Baa2," says Yoshio Takahashi, a Moody's Assistant Vice President and Analyst.

Moody's believes that since PLDT is predominantly a domestic entity, with substantially all of its revenues coming from, and assets based in, the Philippines, its fundamental creditworthiness closely reflects the potential risks that it shares with the sovereign.

"PLDT's dominant market position, strong financial metrics, and excellent liquidity support its Baa2 ratings. Notwithstanding such strengths, the rating also reflects Moody's perception of PLDT's increased investment appetite and accelerated capex programme, together with a 100% dividend payout ratio which Moody's expects will be maintained," Takahashi adds.

The stable outlook is currently in line with the outlook for the Ba1 foreign currency rating for the Republic of the Philippines.

It also reflects Moody's expectation that PLDT will execute its business plan as outlined and that no additional investment in the Manila Electric Company (Meralco, unrated) or any other non-core business is considered. In particular, Moody's expects PLDT to deliver its network modernization objectives such that the 2013 financial year starts to show some of the benefits of its accelerated capex programme.

Given the guidelines regarding the differential between government and corporate ratings (see Credit Policy paper entitled 'How Sovereign Credit Quality May Affect Other Ratings', published on 13 February 2012), it is unlikely that PLDT will experience any upward rating pressure, unless the sovereign rating of the Philippines is upgraded further.

An upgrade of PLDT would be considered, along with the upgrade of the sovereign rating, if it can maintain adjusted EBITDA margins over 45% and reduce adjusted debt/EBITDA to below 1.5x on a sustained basis. Moody's would also specifically like to ensure that shareholder returns and asset investment policies will not lead to a material deterioration of the company's financial profile.

Any downward rating action at the sovereign level would, in all likelihood, result in negative rating actions for PLDT, as Moody's would seek to maintain the current notching gap in the absence of any further credit deterioration.

PLDT's ratings will be also under pressure if adjusted EBITDA margins fall below 40% or adjusted debt/EBITDA exceeds 2.0x as a result of weak operating performance or event risk. Any additional material investment in non-core businesses would also be negative for the ratings.

The principal methodology used in rating PLDT was the Global Telecommunications Industry Methodology published in December 2010. Please see the Credit Policy page on www.moody.com for a copy of this

methodology.

Other Factors used in this rating are described in the Rating Implementation Guidance document: How Sovereign Credit Quality May Affect Other Ratings, published in February 2012.

PLDT is the largest telecommunications operator in the Philippines; it is an integrated provider of fixed-line, broadband, cellular, information and communications technology and business process outsourcing services. At the end of June 2012, it had a market share of approximately 68% in terms of subscribers for cellular telephony, 65% for fixed-line services, and about 63% for broadband.

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