PHILIPPINE LONG DISTANCE TELEPHONE CO
Form 20-F
June 29, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _________ to _________

OR

[ ] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Date of event requiring this shell company report __________

Commission file number 1-03006

Philippine Long Distance Telephone Company

(Exact name of Registrant as specified in its charter)

Republic of the Philippines

(Jurisdiction of incorporation or organization)

Ramon Cojuangco Building

Makati Avenue

Makati City, Philippines

(Address of principal executive or organization)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Capital Stock, Par Value Five Philippine Pesos Per Share	New York Stock Exchange*
American Depositary Shares, evidenced by American Depositary Receipts, each representing one share of Common Capital Stock	New York Stock Exchange

** Registered on the New York Stock Exchange not for trading but only in connection with the registration of American Depositary Shares pursuant to the requirements of such stock exchange.*

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

9.250% Notes due 2006	10.500% Notes due 2009
7.850% Notes due 2007	11.375% Notes due 2012
10.625% Notes due 2007	8.350% Notes due 2017

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as at the close of the period covered by the annual report.

As at December 31, 2005:
180,789,003 shares of Common Capital Stock, Par Value Five Philippine Pesos Per Share
451,589,551 shares of Serial Preferred Stock, Par Value Ten Philippine Pesos Per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes [√] No [ ]

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes [ ] No [√]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes [√] No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filed. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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Large Accelerated Filer [√] Accelerated Filer [ ] Non-Accelerated Filer [ ]

-

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18 [√]

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes [ ] No [√]

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CERTAIN CONVENTIONS AND TERMS USED IN THIS REPORT

Unless the context indicates or otherwise requires, references to we, us, our or PLDT Group mean Philippine Long Distance Telephone Company and its consolidated subsidiaries, and references to PLDT mean Philippine Long Distance Telephone Company, not including its consolidated subsidiaries (see *Note 2 Basis of Consolidated Financial Statements Preparation* to the accompanying consolidated financial statements in Item 18 for a list of these subsidiaries, including a description of their respective principal business activities).

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

All references to the Philippines contained in this report mean the Republic of the Philippines and all references to the U.S. or the United States are to the United States of America.

In this report, unless otherwise specified or the context otherwise requires, all references to pesos, Philippine peso or Php are to the lawful currency of the Philippines, all references to dollars, U.S. dollars or US$ are to the lawful currency of the United States, all references to Japanese yen, JP¥ or ¥ are to the lawful currency of Japan, and all references to Euro or are to the lawful currency of the European Union. Unless otherwise indicated, translations of peso amounts into U.S. dollars in this report were made based on the volume weighted average exchange rate quoted through the Philippine Dealing System, which was Php53.062 to US$1.00 on December 31, 2005. On June 28, 2006, the volume weighted average exchange rate quoted was Php53.514 to US$1.00.

In this report, each reference to:

- ACeS Philippines means ACeS Philippines Cellular Satellite Corporation, our wholly-owned subsidiary;
- AIL means ACeS International Limited;
- Airborne Access means Airborne Access Corporation, a 51%-owned subsidiary of ePLDT;
- ARPU means average monthly revenue per user;

- BCC or Bonifacio Communications Corporation, our 75%-owned subsidiary;

- BSP means Bangko Sentral ng Pilipinas;

- Clark Telecom means PLDT Clark Telecom, Inc., our wholly-owned subsidiary;

- Digital Paradise means Digital Paradise, Inc., a 69.15%-owned subsidiary of ePLDT;

- DoCoMo means NTT DoCoMo, Inc.;

- DSL means digital subscriber line;

- ePLDT means ePLDT, Inc., our wholly-owned subsidiary;

- ePLDT Ventus means ePLDT Ventus, Inc., a wholly-owned subsidiary of ePLDT carrying the umbrella brand name for ePLDT s call center business, including Vocativ and Parlance;

- First Pacific means First Pacific Company Limited;

- GAAP means generally accepted accounting principles;

- GSM means global system for mobile communications;

- Infocom means Infocom Technologies, Inc., a 99.6%-owned subsidiary of ePLDT;

- Mabuhay Satellite means Mabuhay Satellite Corporation, our 67%-owned subsidiary;

- Maratel means PLDT-Maratel, our 97.5%-owned subsidiary;

- netGames means netGames, Inc., a 60%-owned subsidiary of ePLDT;

- NTC means the National Telecommunications Commission of the Philippines;

- NTT means Nippon Telegraph and Telephone Corporation;

- NTT Communications means NTT Communications Corporation, a wholly-owned subsidiary of Nippon Telegraph and Telephone Corporation of Japan;

- NTTC-UK means NTT Communications Capital (UK) Ltd., a wholly-owned subsidiary of NTT Communications;

- PAPTELCO means Philippine Association of Private Telephone Companies;

- Parlance means Parlance Systems, Inc., a wholly-owned subsidiary of ePLDT;

- Piltel means Pilipino Telephone Corporation, a 92.1%-owned subsidiary of Smart;

- PLDT Beneficial Trust Fund means the beneficial trust fund created by PLDT to pay the benefits under the PLDT Employees Benefit Plan;

- PLDT Global means PLDT Global Corporation, our wholly-owned subsidiary;

- SEC means the Philippine Securities and Exchange Commission;

- SIM means subscriber identification module;

- SMS means short messaging service;

- Smart means Smart Communications, Inc., our wholly-owned subsidiary;

- Smart Broadband means Smart Broadband, Inc. (formerly Meridian Telekoms, Inc.), our wireless broadband provider and a wholly-owned subsidiary of Smart;

- Subic Telecom means Subic Telecommunications Company, Inc., our wholly-owned subsidiary;

- Telesat means Telesat, Inc., our 94.4%-owned subsidiary;

- VAS means value-added service;

- Vocativ means Vocativ Systems, Inc., a wholly-owned subsidiary of ePLDT;

- VSAT means very small aperture terminal;

- WAP means wireless application protocol;

- W-CDMA means wireless-code division multiple access; and

- Wolfpac means Wolfpac Mobile, Inc., our wireless content operator and a wholly-owned subsidiary of Smart.

FORWARD-LOOKING STATEMENTS

Some information in this report may contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current beliefs, expectations and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as believe, plan, anticipate, continue, estimate, expect, may, will or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith. These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information Risk Factors. When considering forward-looking statements, you should keep in mind the description of risks and other cautionary statements in this report.

You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as at the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the statements in this report after the date hereof. In light of these risks and uncertainties, you should keep in mind that actual results may differ materially from any forward-looking statement made in this report or elsewhere.

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The selected consolidated financial information below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes, included elsewhere in this report. The consolidated financial statements have been prepared and presented in conformity with U.S. GAAP.

Prior to the filing of our Annual Report on Form 20-F in respect of the year ended December 31, 2002, the consolidated financial statements included in our Annual Reports on Form 20-F filed with the U.S. Securities and Exchange Commission, or U.S. SEC, were prepared in conformity with Philippine GAAP. Philippine GAAP varies in certain significant respects from U.S. GAAP. A description of the significant differences between U.S. GAAP and Philippine GAAP and a quantitative reconciliation of such differences in the net loss and stockholders equity to U.S. GAAP was disclosed in a note to our previously filed consolidated financial statements.

	Consolidated Financial Data Years Ended December 31,					
	2005	**2005**(1)	**2004**	**2003**	**2002**	**2001**
	(in millions, except operating income per share, earnings per common share, ratio of earnings to fixed charges and dividends declared per common share)					
Amounts in conformity with U.S. GAAP:						
Statements of Operating Data:						
Operating Revenues	Php123,335	US$2,324	Php121,173	Php111,200	Php93,831	Php80,294
Service	120,348	2,268	114,904	100,486	81,686	67,279
Non-service	2,987	56	6,269	10,714	12,145	13,015
Operating Expenses	74,821	1,410	72,634	77,821	81,802	88,288
Operating Income (Loss)	48,514	914	48,539	33,379	12,029	(7,994)
Operating income (loss) per share						
Basic	263.81	4.97	266.73	179.04	55.47	(59.52)
Diluted	255.15	4.81	252.20	165.37	52.23	(59.52)
Net income (loss)	40,603	765	28,101	11,045	(6,158)	(27,782)
Earnings per common share(2)						
Basic	217.84	4.11	146.32	47.20	(52.08)	(176.85)
Diluted	211.93	3.99	145.30	45.72	(52.08)	(176.85)
Balance Sheets Data:						
Cash and cash equivalents	30,064	567	27,321	19,372	10,974	4,276
Total assets	269,220	5,074	279,041	276,362	269,387	284,877
Total long-term debt - net of current portion	93,516	1,762	131,377	160,464	171,283	169,870
Total debt(3)	112,313	2,117	159,455	186,407	191,668	196,561
Total liabilities(4)	176,491	3,326	215,145	236,630	240,622	249,563
Total stockholders equity	79,595	1,500	48,079	24,746	16,413	24,472
Other Data:						

Depreciation and amortization	27,855	525	20,098	21,812	17,566	16,218
Ratio of earnings to fixed charges(5)	5.7x	5.7x	4.1x	2.0x		
Net cash provided by operating activities	64,969	1,224	62,860	42,582	39,722	20,113
Net cash used in investing activities	13,080	247	24,764	20,021	17,167	29,376
Net cash used in financing activities	48,159	908	30,078	14,135	15,954	3,841
Dividends declared to common shareholders	9,624	181				202
Dividends declared per common share(6)	56.00	1.06				1.20

(1) We maintain our accounts in Philippine peso. For convenience, the peso financial information as at and for the year ended December 31, 2005, has been translated into U.S. dollars at the exchange rate of Php53.062 to US$1.00, the rate quoted through the Philippine Dealing System as at December 31, 2005. This translation should not be construed as a representation that the Philippine peso amounts represent, or have been or could be converted into, U.S. dollars at that rate or any other rate.

(2) In 2002 and 2001 our convertible preferred shares were deemed anti-dilutive based on a calculation of the required dividends on preferred shares for each series of convertible preferred shares divided by the number of equivalent common shares assuming such preferred shares were converted into common shares and compared against the basic earnings per share. Since the amount of dividends on preferred shares over the equivalent number of common shares were greater than the basic earnings per share, the amounts for basic and diluted earnings per share are the same.

(3) Total debt represents current portion of long-term debt, long-term debt net of current portion and notes payable.

(4) Total liabilities on a consolidated basis represent the difference between total assets and minority interest in consolidated subsidiaries, preferred stock subject to mandatory redemption and stockholders equity.

(5) For purposes of this ratio, Earnings consist of income before provision for income tax (excluding PLDT s share in undistributed income of less than 50% owned affiliates) and fixed charges (excluding capitalized interest). Fixed charges consist of interest (including capitalized interest, discounts and other financing costs) on all indebtedness, amortization of deferred financing costs and the estimated financing component of rent expense (i.e., one-third of rent expense).

Due to PLDT s net losses in 2002 and 2001, the coverage ratio on a consolidated basis was less than 1.0x in these years. In order to achieve a coverage ratio of 1.0x, we would have had to generate additional consolidated earnings of Php2,463 million and Php30,126 million for each of the years ended December 31, 2002 and 2001, respectively.

(6) The most recent cash dividend declaration made by PLDT on its common stock in 2005 was on November 8, 2005 at Php21 per common share to holders of record as at November 28, 2005 which was paid on December 28, 2005. For more information, please see Dividends Declared table below.

Capital Stock

The following table summarizes PLDT s capital stock outstanding as at December 31, 2005, 2004 and 2003.

	December 31,		
	2005	**2004**	**2003**
	(in millions)		
Serial Preferred Stock			
10% Cumulative Convertible Preferred Stocks			
A to EE	Php4,073	Php4,091	Php4,099
Series III		46	46
Convertible Preferred Stocks Subject to Mandatory Redemption			
Series V(1)	2	22	26
Series VI(1)	44	47	47
Series VII(1)	38	38	38
Cumulative Non-convertible Redeemable Preferred Stock			
Series IV	360	360	360
	Php4,517	Php4,604	Php4,616
Common Stock	Php904	Php851	Php847

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(1) Preferred stock subject to mandatory redemption in 2008 and 2009 (see Note 14 Preferred Stock Subject to Mandatory Redemption to the accompanying consolidated financial statements in Item 18 for further discussion).

Dividends Declared

The table sets forth dividend declarations on shares of PLDT s common stock in 2005, which were the first cash dividend declarations on shares of PLDT s common stock since April 2001:

		Date		Amount	
Class	**Declaration**	**Record**	**Payable**	**Per Share**	**Total**
					(in million pesos)

Common Stock	March 1, 2005	March 31, 2005	May 12, 2005	Php14.00	2,384
	May 5, 2005	June 3, 2005	July 14, 2005	21.00	3,598
	November 8, 2005	November 28, 2005	December 28, 2005	21.00	3,642

In addition, on February 27, 2006, PLDT declared cash dividend of Php28 per share to common shareholders of record as of March 20, 2006 which was paid on April 20, 2006.

Our current policy is to declare and pay dividends taking into consideration the interests of our shareholders as well as our working capital, capital expenditures and debt servicing requirements. Also taken into consideration are our ability to meet loan covenant requirements and the required prior written consents of certain creditors and preferred stockholders (for stock dividends), under certain conditions, in the declaration and payment of dividends as discussed in *Note 12 Interest-bearing Financial Liabilities* and *Note 15 Stockholders Equity* to the accompanying consolidated financial statements in Item 18. The retention of earnings is necessary to meet the funding requirements of our business expansion and development programs. Unappropriated retained earnings of PLDT include undistributed earnings representing accumulated equity in the net earnings of our subsidiaries, which are not available for distribution as dividends until received in the form of dividends from such subsidiaries (see *Note 15 Stockholders Equity* to the accompanying consolidated financial statements in Item 18). Dividends are generally paid in Philippine pesos. In the case of shareholders residing outside the Philippines, PLDT's transfer agent in Manila, which acts as the dividend-disbursing agent, converts the peso dividends into U.S. dollars at the prevailing exchange rates, and remits the dollar proceeds abroad, net of withholding tax.

Dividends Paid

A summary of dividends paid per share of PLDT's common stock stated in both Philippine peso and U.S. dollars follows:

	In Philippine Peso	In U.S. Dollars

2001		
January 15	1.20	0.023
April 16	1.20	0.024
2002		
2003		
2004		
2005		
May 12	14.00	0.264
July 14	21.00	0.396
December 28	21.00	0.396
2006 (through June 28, 2006)	28.00	0.528

(*Note*: *Dividends on PLDT's common stock were declared and paid in Philippine peso. For the convenience of the reader, the peso dividends are translated into U.S. dollars based on exchange rates on the respective dates of dividend payments).*

Exchange Rates

The Philippine government does not administratively fix the exchange rate between the Philippine peso and the U.S. dollar. Since August 1, 1992, a market average rate has been determined daily in inter-bank trading using the Philippine Dealing System, known as the Philippine Dealing System Reference Rate. The Philippine Dealing System is a specialized off-floor direct dealing service for the trading of Philippine pesos-U.S. dollars by member banks of the Bankers Association of the Philippines and BSP, the central bank of the Philippines. All members of the Bankers Association of the Philippines are required to make their Philippine peso-U.S. dollar trades through this system, which was established by Telerate Financial Information Network of Hong Kong.

The following shows the exchange rates between the Philippine peso and the U.S. dollar, expressed in pesos per U.S. dollar, for the periods indicated, based on the volume-weighted average exchange rate for each business day in each of the periods presented:

	Year Ended December 31,			
	Period End	**Average(1)**	**High(2)**	**Low(3)**
2001	Php51.690	Php51.009	Php47.550	Php55.013
2002	53.254	51.583	49.336	53.841
2003	55.586	54.215	52.021	55.767
2004	56.341	56.044	55.142	56.443
2005	53.062	55.085	53.062	56.321

2006 (through June 28, 2006)	53.514	52.039	50.963	53.514

Source: Philippine Dealing System Reference Rate

(1) Simple average of exchange rates for the period.

(2) Highest exchange rate for the period.

(3) Lowest exchange rate for the period.

	Period End	Month Average(1)	High(2)	Low(3)
2005				
December	Php53.062	Php55.085	Php53.062	Php56.321
2006				
January	52.167	52.576	52.167	52.903
February	51.725	51.795	51.499	52.097
March	51.158	51.194	50.963	51.484
April	51.777	51.394	50.997	51.889
May	52.820	52.175	51.389	52.920
June (through June 28, 2006)	53.514	53.152	52.694	53.514

Source: Philippine Dealing System Reference Rate

(1) Simple average of exchange rates for the month.

(2) Highest exchange rate for the month.

(3) Lowest exchange rate for the month.

This report contains conversions of Philippine peso amounts into U.S. dollars for your convenience. Unless otherwise specified, these conversions were made at the exchange rate as at December 31, 2005 of Php53.062 to US$1.00. You should not assume that such peso amounts represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rate indicated, or at any particular rate. As at June 28, 2006, the exchange rate quoted through the Philippine Dealing System was Php53.514 to US$1.00.

Risk Factors

Risks Relating to Us

We face competition from well-established telecommunications operators and may face competition from new entrants that may adversely affect our business, results of operations, financial condition and prospects

The Philippine government has liberalized the Philippine telecommunications industry and opened up the Philippine telecommunications market to new entrants. Including us, there are nine major local exchange carriers, seven international gateway facility providers and five cellular service providers in the country. Many new entrants into the Philippine telecommunications market have entered into strategic alliances with foreign telecommunications companies, which provide them access to technological and funding support as well as service innovations and marketing strategies. Consequently, we are facing increasing competition in major segments of the telecommunications industry, particularly data and other network services segments. We cannot assure you that the number of providers of telecommunication services will not further increase or that competition for telecommunications customers will not lead our cellular and fixed line subscribers to switch to other operators or lead us to increase our marketing expenditures or reduce our rates, resulting in a reduction in our profitability.

Competition in the cellular telecommunications industry in the Philippines is based primarily on factors such as network coverage, quality of service and price. Recently, competition has increased as operators sought to develop and maintain market shares and to attract new subscribers. Our principal cellular competitors, Globe Telecom, Inc., or Globe, and Digitel Telecommunications Philippines, Inc., or Digitel, through its cellular service, *Sun Cellular,* have introduced aggressive marketing campaigns and promotions. In the future, the government may allocate further frequencies and award additional cellular telecommunications licenses, which would further increase competition.

As a result of competitive pressures, Smart has not increased its cellular rates since November 1998. Moreover, the level of competition requires Smart to continuously innovate its products and to conduct promotions, which may affect its cellular revenues and revenue growth. For example, in order to test the market demand for fixed rate or bucket plans for voice and text services and in response to similar types of promotions launched by its competitors, Smart launched in March 2005 the *Smart 258 Unlimited Call and Text* promotions pursuant to which Smart and *Talk N Text* prepaid subscribers had the option to avail themselves of unlimited on-network (Smart-to-Smart) voice calls or unlimited on-network (Smart-to-Smart) text messages at a fixed rate.

In June 2005, Globe was awarded a license by the NTC to install fixed lines nationwide. The expanded franchise allows Globe to increase its fixed line coverage which was previously limited by its designated service areas. In addition, Globe and other fixed line operators, such as Digitel and Bayan Telecommunications Philippines, Inc., or Bayantel, have recently become more aggressive in lowering rates for national long distance calls, international long distance calls and other data services including DSL. We have likewise introduced promotions and new pricing plans which effectively lower the prices for international long distance calls and DSL.

In December 2005, the NTC awarded licenses covering third generation, or 3G, cellular services to existing cellular operators Smart, Globe, Digitel and to a new entrant, Connectivity Unlimited Resources Enterprises, or CURE. The recent introduction of 3G cellular services in the Philippines may also lead to increased competition and may require

Smart to incur additional marketing expenses in order to compete more effectively against the other 3G operators.

There can be no assurance that incurring additional marketing expenses for these promotions and responding to rate pressures and the potential loss of customers will not have a material adverse effect on our financial performance.

Rapid changes in telecommunications technology may adversely affect the economics of our existing businesses and the value of our assets, increase our required capital expenditures and create new competition

The telecommunications sector has been characterized recently by rapid technological changes. We cannot assure you that these developments will not result in competition from providers of new services or the need to make substantial capital expenditures to upgrade our facilities. Furthermore, in 2005, the NTC issued the licenses covering 3G cellular services to four operators, including Smart, and we have made significant expenses in the roll out of these services. We are also currently upgrading to a next generation, all-IP, network and rolling out a wireless broadband network in order to expand our capability to provide broadband services. These projects require significant capital expenditures over the next few years.

Our future success will depend, in part, on our ability to anticipate or adapt to such changes and to offer services that meet customer demands on a competitive and timely basis. We may be unable to obtain new technologies on a timely basis or on satisfactory terms or implement them in an appropriate or effective manner. Future development of new technologies, services or standards could require significant changes to our business model which could necessitate new investments. In addition, new products and services may be expensive to develop and may result in increased competition. Such strategic initiatives and technological developments could require us to incur significant additional capital expenditures. There can be no assurance that we would be able to adopt and successfully implement new technologies. In addition, there can be no assurance on how emerging and future technological changes will affect our operations or the competitiveness of our services.

Our results of operations have been, and may continue to be, adversely affected by competition in international long distance service

The international long distance business was historically one of our major sources of revenue. However, due to competition and the steep decline in international settlement rates that are paid to us by foreign telecommunications carriers for termination of international calls on our network, revenues generated from our international long distance business have overall declined in recent years.

We anticipate that revenues from international long distance and international data services, including our services, will continue to decline in the future, due primarily to:

- increased competition from other domestic and international telecommunications services providers;
- advances in technology;
- alternative providers offering Internet telephony, or VoIP, and broadband capacity; and
- unauthorized traffic termination and bypass routings by international simple resale operators.

We cannot assure you that these declines will not materially and adversely affect our financial performance.

Net settlement payments between PLDT and other foreign telecommunications carriers for origination and termination of international call traffic between the Philippines and other countries have been our predominant source of foreign currency revenues. However, in U.S. dollar terms, these payments have been declining in recent years. Continued decline in our foreign currency revenues could increase our exposure to risks from declines in the value of the Philippine peso against the U.S. dollar. We cannot assure you that we will be able to achieve adequate increases in our other revenues to make up for any adverse impact of a further decline in our net settlement payments.

Our debt instruments contain restrictive covenants which require us to maintain certain financial tests and our substantial indebtedness could impair our ability to fulfill our financial obligations, service our other debt and carry out new financings or pay dividends

As at December 31, 2005, we had consolidated total indebtedness of approximately Php112,313 million (US$2,117 million), and a consolidated ratio of debt to equity (total debt on a consolidated basis divided by total equity) of 1.41x. Our existing debt instruments contain covenants which, among other things, require PLDT to maintain certain financial ratios calculated on the basis of Philippine GAAP on a consolidated and non-consolidated basis, limit our ability to incur indebtedness, make investments, incur expenditures and pay dividends. Financial statements prepared in conformity with Philippine GAAP differ in some material respects from financial statements prepared in conformity with U.S. GAAP. For a description of some of these covenants, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources Financing Activities Debt Financing Debt Covenants.

Our substantial indebtedness and the requirements and limitations imposed by our debt covenants could have important consequences. For example, they could:

- require us to dedicate a substantial portion of our cash flow to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;

- limit our ability to refinance our debt obligations or incur new debt;

- limit our ability to incur capital expenditure; and

- limit the availability and amount of dividend payments to our common shareholders.

The principal factors that can negatively affect our ability to comply with the financial ratios and other financial tests under our debt instruments are depreciation of the peso relative to the U.S. dollar, poor operating performance of PLDT and our consolidated subsidiaries, impairment or similar charges in respect of investments of other long-lived assets that may be recognized by PLDT and its consolidated subsidiaries and increases in our interest expense. Since approximately 98% of our total debts were denominated in foreign currencies, principally in U.S. dollars, many of these financial ratios and other tests are negatively affected by any weakening of the peso. The peso has been subject to significant fluctuations in recent years. From 2002 to 2004, the peso has generally been depreciating from a high of Php49.336 on May 20, 2002 to a low of Php56.443 on October 14, 2004. In 2005, the peso fluctuated significantly from a low of Php56.321 on July 8 to a high of Php53.062 on December 29. While the peso appreciated as at December 31, 2005, we cannot assure you that the peso will not depreciate and be subject to significant fluctuations going forward.

We have maintained compliance with all of our financial ratios and covenants, as measured under Philippine GAAP, under our loan agreements and other debt instruments. However, if negative factors adversely affect the financial ratios, we may be unable to maintain compliance with these ratios and covenants or be unable to incur new debt. Inability to comply with our financial ratios and covenants or raise new financing could result in a declaration of default and acceleration of some or all of our indebtedness. The terms of some of our debt instruments have no minimum amount for cross-default.

If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets. An inability to effect these measures successfully could result in a declaration of default and an acceleration of some or all of our indebtedness.

In addition, we may have difficulty meeting debt payment obligations if we do not continue to receive cash dividends from Smart.

Creditors of our subsidiaries will have superior claims to our subsidiaries cash flow and assets

A growing portion of our consolidated operating revenues and cash flow from operations is derived from our subsidiaries, particularly Smart. Smart and some of our other subsidiaries have significant internal cash requirements for debt service, capital expenditures and operating expenses and so may be financially unable to pay any dividends to PLDT. In addition, some of our subsidiaries are subject to covenants that restrict them from distributing cash to PLDT except under certain circumstances. In particular, Smart is subject to loan covenants that restrict its ability to distribute cash to PLDT. Although Smart received consents under its relevant loans that permitted it to make dividend payments to PLDT since December 2002, we cannot assure you that PLDT will continue to receive dividends or other distributions, or otherwise be able to derive liquidity from Smart or any other subsidiary or investee in the future.

Creditors of our subsidiaries will have prior claims to our subsidiaries assets and cash flows. We and our creditors will effectively be subordinated to the existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries, except that we may be recognized as a creditor on loans we have made to subsidiaries. If we are recognized as a creditor of a subsidiary, our claim will still be subordinated to any indebtedness secured by assets of the subsidiary and any indebtedness of the subsidiary otherwise deemed senior to the indebtedness we hold.

Our businesses require substantial capital investment, which we may not be able to finance

Our projects under development and the continued maintenance and improvement of our networks and services, including Smart s projects, networks and services, require substantial ongoing capital investment. Our consolidated capital expenditures in 2005 and 2004 totaled Php15,864 million and Php19,268 million, respectively. Our 2006 budget for consolidated capital expenditures is approximately Php19,759 million, of which approximately Php9,300 million is budgeted to be spent by PLDT, approximately Php8,635 million is budgeted to be spent by Smart and the balance represents the budgeted capital spending of our other subsidiaries. PLDT s capital spending is intended principally to finance the continued build-out and upgrade of its data and Internet protocol infrastructures and for its fixed line data services and the maintenance of its network. Smart s capital spending is focused on expanding and upgrading its transmission network facilities to meet increased demand for cellular services.

Future strategic initiatives could require us to incur significant additional capital expenditures. We may be required to finance a portion of our future capital expenditures from external financing sources, which have not yet been fully arranged. We cannot assure you that financing for new projects will be available on terms acceptable to us or at all. If we cannot complete our development programs and other capital projects, our growth, results of operations and financial condition could be materially and adversely affected.

Our financial position could be materially and adversely affected if the peso significantly fluctuates against the U.S. dollar

Substantially all of our indebtedness and related interest expense, a substantial portion of our capital expenditures and a portion of our expenses are denominated in U.S. dollars and other foreign currencies, but a significant portion of our revenues is denominated in pesos. As at December 31, 2005, 98% of our total consolidated indebtedness was denominated in U.S. dollars and other foreign currencies. As at December 31, 2005, approximately 53% of our consolidated debts were unhedged. A depreciation of the peso against the U.S. dollar increases the amount of our debt obligations and operating and interest expenses in peso terms. In the event that the peso depreciates against the U.S. dollar, we may be unable to generate enough funds through operations (such as by raising our service rates, including through adjustments to rates for local exchange service based on movements in the peso-to-dollar exchange rate) and other means to offset the resulting increase in our obligations in peso terms. Further, these changes could cause us not to be in compliance with the financial covenants imposed by our lenders under certain loan agreements and other indebtedness.

On the other hand, approximately 35% of our consolidated service revenues are either denominated in U.S. dollars or is linked to the U.S. dollar. In this respect, an appreciation of the peso against the U.S. dollar reduces our revenues in peso terms and reduces our cash flow from operations.

During the last decade, the peso has generally depreciated against most foreign currencies. In addition, during this period, the Philippine economy has also, from time to time, experienced periods of concentrated peso devaluation and limited availability of foreign currency. Since June 30, 1997, when the BSP announced that it would let market forces determine the value of the peso, the peso has experienced a significant decline against the U.S. dollar. It depreciated from Php26.376 to US$1.00 on June 30, 1997, to Php56.341 to US$1.00 as at December 31, 2004 but appreciated to Php53.062 to US$1.00 as at December 31, 2005. The peso has also been subject to significant fluctuations. The peso declined by approximately 1% against the U.S. dollar to Php56.341 to US$1.00 as at December 31, 2004 from Php55.586 to US$1.00 as at December 31, 2003 and appreciated by approximately 6% against the U.S. dollar to Php53.062 to US$1.00 as at December 31, 2005 from 56.341 to US$1.00 as at December 31, 2004. In 2005, the peso appreciated to a high of Php53.062 on December 29, 2005 after depreciating to a low of Php56.321 on July 8, 2005. While the peso appreciated as at December 31, 2005, we cannot assure you that the peso will not depreciate and be subject to significant fluctuations going forward.

The peso may again be subject to significant fluctuations and may depreciate due to a range of factors, including:

- political and economic developments affecting the Philippines;
- the volatility of regional currencies, particularly the Japanese yen;
- any interest rate increases by the Federal Reserve Bank of the United States;
- higher demand for U.S. dollars by both banks and domestic businesses to service their maturing U.S. dollar obligations; and
- foreign exchange traders covering their short U.S. dollar positions.

The cellular telecommunications industry may not continue to grow

The majority of our consolidated revenues is currently derived from cellular services. As a result, we depend on the continued development and growth of the cellular telecommunications industry. The cellular penetration rate in the Philippines is estimated to have reached approximately 41%. As such, our cellular business is expected to grow at a slower rate as penetration rate increases and Smart moves further into the lower-income segments of the Philippine cellular services market. Growth of the cellular services market depends on many factors beyond our control, including the continued introduction of new and enhanced cellular devices, the price levels of cellular handsets, consumer preferences and the amounts of disposable income of existing and potential subscribers. Any economic, technological or other developments resulting in a reduction in demand for cellular services may harm our business.

Our businesses depend on the reliability of our network infrastructure, which is subject to physical, technological and other risks

We depend to a significant degree on an uninterrupted operation of our network to provide our services. We also depend on robust information technology systems to enable us to conduct our operations. The development and operation of telecommunications networks are subject to physical, technological and other risks, which may cause interruptions in service or reduced capacity for customers. These risks include:

- physical damage;
- power loss;
- capacity limitation;
- cable theft;
- software defects; and
- breaches of security by computer viruses, break-ins or otherwise.

While we are taking initiatives to prevent and/or mitigate the occurrence of the above risks including the preparation of a disaster recovery plan that aims to allow restoration of service at the soonest possible time from occurrence of an accident, we cannot assure you that the occurrence of any of these risks will not have a material and adverse effect on our ability to provide services to our customers.

A significant number of PLDT s shares are held by three separate shareholders, which may not act in the interests of other shareholders or stakeholders in PLDT

Affiliates of First Pacific directly or indirectly own approximately 31.36% of PLDT s common stock as at December 31, 2005. This is the largest block of PLDT s common stock that is directly or indirectly under common ownership. NTT Communications, which owned 14% of PLDT s common stock as at December 31, 2005, transferred on March 14, 2006 approximately 12.6 million shares of PLDT s common stock, representing approximately 7% of the outstanding shares of PLDT s common stock, to DoCoMo pursuant to a stock sale and purchase agreement dated January 31, 2006. NTT Communications is a wholly-owned subsidiary, and DoCoMo a majority-owned subsidiary of NTT. In connection with this transaction, First Pacific and certain of its affiliates, or the FP Parties, NTT Communications, DoCoMo and PLDT entered into a Cooperation Agreement, dated January 31, 2006, or the Cooperation Agreement, pursuant to which, among other things, certain rights of NTT Communications under the Stock Purchase and Strategic Investment Agreement dated September 28, 1999 and the Shareholders Agreement dated March 24, 2000 were extended to DoCoMo. As a result, NTT Communications and DoCoMo, in coordination with each other, have contractual veto rights over a number of major decisions and transactions that PLDT could make or enter into, including:

- capital expenditures in excess of US$50 million;

- any investments, if the aggregate amount of all investments for the previous 12 months is greater than US$25 million in the case of all investments to any existing investees and US$100 million in the case of all investments to any new or existing investees, determined on a rolling monthly basis;

- any investments in a specific investee, if the cumulative value of all investments made by us in that investee is greater than US$10 million in the case of an existing investee and US$50 million in the case of a new investee;

- issuance of common stock or stock that is convertible into common stock;

- new business activities other than those we currently engage in;

- merger or consolidation; and

- the provision of financial support to Piltel in excess of that remaining available under the PLDT Letter of Support, or LOS.

Moreover, as a result of the Shareholders Agreement, the Cooperation Agreement and their respective stockholdings, the FP Parties, NTT Communications and/or DoCoMo are able to influence our actions and corporate governance, including:

- elections of PLDT s directors; and

- approval of major corporate actions, which require the vote of common stockholders.

The FP Parties, NTT Communications and/or DoCoMo may exercise control over these decisions and transactions in a manner that could be contrary to your interests.

If a major shareholder sells its interest in PLDT, the transaction may result in an event of default

If First Pacific or NTT Communications sells all or a portion of its equity interest in PLDT, in certain circumstances, such sale may give rise to an obligation for PLDT to make an offer to purchase or prepay its outstanding debt under its US$100 million 10.625% notes due 2007 and its US$250 million 11.375% notes due 2012, its JP¥9,760 million loan agreement with Japan Bank for International Cooperation, or JBIC, (formerly known as the Export-Import Bank of Japan), and may result in a default under certain of Smart s loan agreements. As at December 31, 2005, Php18,234 million in principal amount of PLDT s indebtedness is directly subject to a change in control, offer to purchase or prepay requirement and Php3,867 million in principal amount of Smart s indebtedness is subject to an event of default in the event of a change in control of PLDT. If PLDT fails to complete a required change in control offer to purchase or prepay the affected debts, all of its debt could become immediately due and payable as a result of various cross-default provisions.

The franchise of Smart may be revoked due to its failure to conduct a public offering of its shares

Smart has publicly stated that it believes that it had ten years from the commencement of its operations, or until August 2004, to conduct a public offering of its shares required under the Public Telecommunications Policy Act, or

R.A. No. 7925. As Smart has not conducted a public offering of its shares, the Philippine Congress may revoke the franchise of Smart for its failure to comply with the requirement under R.A. 7925 on the public offering of its shares. A quo warranto case may also be filed against Smart by the Office of the Solicitor General of the Philippines for the revocation of the franchise of Smart on the ground of violation of R.A. 7925. In September 2004, Senate Bill No. 1675 was filed seeking to amend Section 21 of R.A. 7925. The bill seeks to declare that a telecommunications entity shall be deemed to have complied with the requirement of making a public offering of its shares if two-thirds of its outstanding voting stock are owned and controlled, directly or indirectly, by a listed company. The bill is currently pending in the Philippine Senate. However, we cannot assure you that such bill will be enacted and that the franchise of Smart will not be revoked due to Smart s failure to timely conduct a public offering of its shares.

Our business is significantly affected by governmental laws and regulations, including regulations in respect of our franchises, rates and taxes

We operate our business under franchises, each of which is subject to amendment, termination or repeal by the Philippine Congress. Additionally, PLDT operates pursuant to various provisional authorities and certificates of public convenience and necessity, or CPCNs, which are granted by the NTC and expire between now and 2028. Some of PLDT s CPCNs and provisional authorities have already expired. However, PLDT filed applications for extension of these CPCNs and provisional authorities prior to their respective expiration dates and is therefore entitled to continue to conduct its business under its existing CPCNs and provisional authorities pending the NTC s decisions on these extensions. Smart also operates its cellular, international long distance, national long distance and global mobile personal communications via satellite services pursuant to CPCNs, which will expire upon the expiration of its franchise. Smart s franchise is due to expire on March 27, 2017, 25 years after the date on which its current franchise was granted. Smart operates international private leased circuits under a provisional authority, which expired on May 6, 2003. Smart applied for an extension of this provisional authority prior to its expiration. Because PLDT and Smart filed the applications for extension on a timely basis, we expect that these extensions will be granted. However, we cannot assure you that the NTC will grant these extensions. If a CPCN has not been issued, the NTC may permit an operator to provide services pursuant to a provisional authority. Provisional authorities are typically granted for a period of 18 months. The Philippine Revised Administrative Code of 1987 provides that if the grantee of a license or permit, such as a CPCN or provisional authority, has made timely and sufficient application for the extension thereof, the existing CPCN or provisional authority will not expire until the application is finally decided upon by the administrative agency concerned. However, we cannot assure you that our franchises, CPCNs and provisional authorities will be renewed. For a description of our licenses, see Item 4. Information on the Company Licenses and Regulation.

The NTC also regulates the rates we are permitted to charge for services that have not yet been deregulated, such as local exchange services. We cannot assure you that the NTC will not impose additional obligations on us that could lead to the revocation of our licenses if not adhered to and/or reduction in our total operating revenues or profitability. In addition, the NTC could adopt changes to the regulations governing our interconnection with other telecommunications companies or the rates and terms upon which we provide services to our customers that could have a material and adverse effect on our results of operations.

In the first quarter of 2005, House Bill No. 926 was filed and is now pending in the House of Representatives of the Philippines. The proposed bill provides for the cancellation of the currency exchange rate mechanism pursuant to which utility companies, including us, are permitted to adjust our monthly local exchage service rates according to changes in the peso-to-U.S. dollar exchange rate. If this bill is passed into law or if the NTC issues guidelines to change the basis of the currency exchange rate mechanism, our ability to generate U.S. dollar linked revenues from our local exchange business could be adversely affected. A decline in our foreign currency-linked revenues could increase our exposure to risks from declines in the value of the Philippine peso against the U.S. dollar.

We are also subject to a number of national and local taxes. On May 24, 2005, the President signed into law Republic Act No. 9337, or R.A. 9337, amending certain sections of the National Internal Revenue Code which became effective on November 1, 2005. In particular, the following amendments may negatively impact our profitability:

- increase of the income tax rate for corporations from 32% to 35% effective November 1, 2005;
- increase in value-added tax, or VAT, rate from 10% to 12% effective February 1, 2006;
- limited claim of input tax credits to 70% of output tax; and
- input tax on capital goods spread evenly over 5 years or estimated useful life, whichever is shorter.

There can be no assurance that the increase in taxes will not have a material adverse effect on our revenues, profitability and cash flows. In addition, there can be no assurance that we will not be subject to new and/or additional taxes and that we will be able to impose additional charges or fees on our customers to compensate for the imposition of such taxes.

Moreover, the Philippine Congress is considering five bills which were filed prior to the signing into law of R. A. 9337. Each of the proposed bill, if passed by Congress and enacted into law, would impose a 7% or 10% tax on the gross receipts of cellular operators. The proposed taxes would apply to both cellular calls and cellular data revenues and prohibit cellular operators from imposing additional charges or fees to compensate for the imposition of the proposed taxes. In addition, several bills have also been submitted for consideration by Congress, each of which, if passed by Congress and enacted into law, would impose a franchise tax at a rate of 7% or 5% tax on gross receipts of all telecommunications companies in lieu of the currently applicable 10% VAT. We cannot assure you that we would be able to impose additional charges or fees to compensate for the imposition of such taxes.

The NTC may implement proposed changes in existing regulations and introduce new regulations which may result in increased competition and may have negative implications for our revenues and profitability

On June 16, 2000, the NTC issued Memorandum Circular No. 13-6-2000 proposing that cellular operators, including Smart and Piltel, be required, among other things:

- to bill their subscribers for cellular calls on a six-second pulse basis instead of the current per minute basis;

• not to bill calls directed to recorded voice messages; and

• to extend the expiration date of prepaid cards from the current two months to two years.

Along with the other Philippine cellular operators, Smart sought and obtained from a Quezon City trial court, a preliminary injunction restraining the implementation of this memorandum circular. The NTC appealed the issuance of the injunction to the Court of Appeals which, on October 9, 2001, annulled the preliminary injunction, ruling that the NTC had jurisdiction over the matter. On January 10, 2002, the Court of Appeals denied the cellular operators motion to annul and reverse the decision of the Court of Appeals. On February 22, 2002, Smart filed an appeal with the Supreme Court arguing that the appellate court had erred in ruling that the NTC, and not the trial court, had jurisdiction over its case. On September 2, 2003, the Supreme Court upheld Smart s appeal, reversing and setting aside the decision of the Court of Appeals and affirming that the Quezon City trial court could hear and decide the case. The case was remanded to the Quezon City trial court for continuation of the proceedings. The NTC filed a motion for reconsideration on September 29, 2003 which was denied with finality by the Supreme Court on November 13, 2003. The Supreme Court stated that considering that the basic issues have already been passed upon and there is no substantial argument to warrant a modification of this court s decision, the court resolves to deny consideration with finality.

In December 2005, the NTC issued a consultative document on the development of competition policy framework for the information communications sector. The consultative paper contains 11 questions which cover the following key areas:

• a review of market trends deemed to impinge on current and future state of competition in the sector;

• an exploration of major policies that may change the balance of market power, hence the nature and degree of competition;

• an assessment of the quality of current regulation, identifying major handicaps of the NTC; and

• a discussion of the urgent tasks for the NTC to effectively govern a dynamic and complex industry.

The NTC invited public comment from industry stakeholders and other interested parties in relation to the issues raised in the paper. On January 31, 2006, PLDT submitted a comprehensive response to the consultative paper.

There can be no assurance that the NTC will not impose changes to the current regulatory framework which may lead to increased competition. Any such changes may have an adverse effect on PLDT s business, results of operations and prospects.

If we are unable to install and maintain telecommunications facilities and equipment in a timely manner, we may not be able to keep up with our principal competitors, which may have negative implications for our revenue and profitability

Our business requires the regular installation of new, and the maintenance of existing, telecommunications transmission and other facilities and equipment, which are being undertaken. The installation and maintenance of these facilities and equipment are subject to risks and uncertainties relating to:

- shortages of equipment, materials and labor;
- work stoppages and labor disputes;
- interruptions resulting from inclement weather and other natural disasters;
- unforeseen engineering, environmental and geological problems; and
- unanticipated cost increases.

Any of these factors could give rise to delays or cost overruns in the installation of new facilities or equipment or could prevent us from properly maintaining the equipment used in our networks, and could have a material and adverse effect on our results of operations and financial condition.

Failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could adversely impact investor confidence and the market price of our common shares and ADSs

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 20-F for the fiscal year ending December 31, 2006, we will be required to include a report by our management on our internal control over financial reporting in our Annual Reports on Form 20-F that contains an assessment by management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of our internal control over financial reporting.

We cannot assure you as to our management s, or our independent registered public accounting firm s, conclusion as of December 31, 2006 with respect to the effectiveness of our internal control over financing reporting. There is a risk that neither our management nor our independent registered public accounting firm will be able to conclude as of December 31, 2006 that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our internal control over financial reporting is documented, designed, operated or reviewed, or if the independent registered public accounting firm interprets the requirements, rules or regulations differently from us, then it may decline to attest to our management s assessment or may issue an adverse opinion. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which ultimately could negatively impact the market prices of our common shares and ADSs.

Moreover, internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal control over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal control over financial reporting, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on the market prices of our common shares and ADSs.

We may not be successful in our acquisitions of and investments in other companies and businesses, and may therefore be unable to implement fully our business strategy

As part of our growth strategy, we may from time to time make acquisitions and investments in companies or businesses, which may or may not be significant. The success of our acquisitions and investments depends on a number of factors, including:

- our ability to identify suitable opportunities for investment or acquisition;
- our ability to reach an acquisition or investment agreement on terms that are satisfactory to us or at all;
- the extent to which we are able to exercise control over the acquired company;
- the economic, business or other strategic objectives and goals of the acquired company compared to those of ours; and
- our ability to successfully integrate the acquired company or business with us.

Any of our contemplated acquisitions and investments may not be consummated due to reasons or factors beyond our control. Even if any contemplated acquisitions and investments are consummated, we may not be able to realize any or all of the anticipated benefits of such acquisitions and investments. Moreover, if we are unsuccessful in our contemplated acquisitions and investments, we may not be able to implement fully our business strategy to maintain or grow certain of our businesses.

Risks Relating to the Philippines

PLDT s business may be affected by political or social or economic instability in the Philippines

On May 10, 2004, the Philippines held a presidential election which resulted in a victory by the incumbent President Arroyo who successfully retained her post. Shortly after the elections, allegations of irregularities in the presidential elections, such as stolen ballots and vote buying intensified. The Philippine Congress commenced an inquiry into a wire tapped audio tape which contains a conversation allegedly between President Gloria Macapagal-Arroyo and a commissioner of the Commission on Elections discussing the vote count on the presidential election. On June 27, 2005, President Gloria Macapagal-Arroyo publicly stated that she did speak to a commissioner of the Commission on Elections in order to protect her votes, but not to influence the outcome of the election. Impeachment complaints based on allegations of culpable violation of the Constitution, graft and corruption and betrayal of public trust were filed against President Arroyo with the Philippine Congress. On September 6, 2005, the Philippine Congress voted to reject the impeachment complaints against President Arroyo.

Recently, coup d etat attempts against the administration of President Arroyo have been reported. On February 24, 2006, President Arroyo declared a state of emergency allowing for warrantless arrests and a temporary take-over of privately-owned utility companies. On March 3, 2006, President Arroyo lifted the state of emergency.

The Philippines has also experienced periods of slow growth, high inflation and significant devaluation of the peso. The Philippine government is also facing a fiscal deficit which it is aiming to eliminate by 2008 by implementing a number of economic reforms.

The fiscal deficit position of the Philippine government and the ongoing political uncertainty has resulted in increased concerns about the political and economic stability of the country. This, in turn, has resulted in the volatility of the peso against the dollar. There can be no assurance that the political environment in the Philippines will be stable or that the current or any future government will adopt economic policies conducive to sustained economic growth or which do not impact adversely on the current regulatory environment for telecommunications or other companies.

If foreign exchange controls were to be imposed, our ability to meet our foreign currency payment obligations could be adversely affected

Approval from or registration with the BSP for the issuance and guarantee of foreign currency-denominated borrowings is not required in order to make our foreign currency payment obligations legally valid and binding. However, receiving this approval and registration will enable a borrower to access the banking system to obtain foreign currency to service its debt obligations rather than using other sources of foreign currency, for example, foreign currency revenue streams.

The Philippine government has, in the past, instituted restrictions on the conversion of the peso into foreign currency and the use of foreign exchange received by Philippine companies to pay foreign currency-denominated obligations. The Monetary Board of the BSP has statutory authority, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, to:

- suspend temporarily or restrict sales of foreign exchange;

- require licensing of foreign exchange transactions; or

- require the delivery of foreign exchange to the BSP or its designee banks.

We cannot assure you that foreign exchange controls will not be imposed in the future. If imposed, these restrictions could materially and adversely affect our ability to obtain foreign currency to service our foreign currency obligations.

The occurrence of natural catastrophes may materially disrupt our operations

The Philippines has experienced a number of major natural catastrophes over the years including typhoons, volcanic eruptions and earthquakes that may materially disrupt and adversely affect our business operations. There can be no assurance that the insurance coverage PLDT maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

Item 4. Information on the Company

Overview

We are the leading national telecommunications services provider in the Philippines. Through our three principal business groups wireless, fixed line, and information and communications technology, or ICT, we offer a wide range of telecommunications services to over 22 million wireless and fixed line subscribers in the Philippines across the nation's most extensive fiber optic backbone and fixed line, cellular and satellite networks.

We are the leading fixed line services provider in the Philippines with approximately 62% of the total reported fixed lines in service nationwide as at December 31, 2005. Smart, our wholly-owned subsidiary, is the leading cellular services provider in the country, with approximately 45% of total reported cellular subscribers as at December 31, 2005. Piltel, Smart s 92.1%-owned subsidiary, had approximately 14% of total reported cellular subscribers as at December 31, 2005. Our involvement in the ICT sectors are primarily through our equity interests in various entities, including *ePLDT Ventus*, a wholly-owned subsidiary of ePLDT carrying the umbrella brand for our call center business in the Philippines.

Our common shares are listed and traded on the Philippine Stock Exchange, or PSE, and our American Depositary Shares evidenced by American Depositary Receipts, or ADRs, are listed and traded on the New York Stock Exchange in the United States. We had a market capitalization of approximately Php359,140 million (US$6,799 million) as at May 31, 200 6, representing one of the largest market capitalizations among Philippine-listed companies. For the year ended December 31, 2005, we had consolidated operating revenues of Php123,335 million (US$2,324 million).

Our principal executive offices are located at the Ramon Cojuangco Building, Makati Avenue, Makati City, Philippines and our telephone number is (632) 816-8556. Our website address is *www.pldt.com.ph*. The contents of our website are not a part of this annual report.

Historical Background and Development

PLDT was incorporated under the old Corporation Law of the Philippines (Act 1459, as amended) on November 28, 1928, following the merger of four telephone companies under common U.S. ownership. Under its amended Articles of Incorporation, PLDT s corporate term is limited through 2028. In 1967, effective control of PLDT was sold by General Telephone and Electronics Corporation (a major shareholder since PLDT s incorporation) to a group of Filipino businessmen. In 1981, in furtherance of the then existing policy of the Philippine government to integrate the Philippine telecommunications industry, PLDT purchased substantially all of the assets and liabilities of the Republic Telephone Company which at that time was the second largest telephone company in the Philippines. In 1998, First Pacific, through its Philippine and other affiliates, acquired a significant interest in PLDT. On March 24, 2000, NTT Communications, through NTTC-UK, became PLDT s strategic partner with approximately 15% economic and voting interest in the issued common capital stock of PLDT. Simultaneous with NTT Communications investment in PLDT, we acquired 100% of Smart. On March 14, 2006, DoCoMo acquired from NTT Communications approximately 7% of PLDT s outstanding common shares, with NTT Communications retaining ownership of approximately 7% of

PLDT s common shares.

PLDT s original franchise was granted in 1928 for an initial period of 50 years and was subsequently extended until 2028. The amended franchise (R.A. 7082), which became effective on August 24, 1991, also broadened PLDT s franchise to permit PLDT to provide virtually every type of telecommunications service. PLDT s franchise covers the business of providing basic and enhanced telecommunications services in and between the provinces, cities and municipalities in the Philippines and between the Philippines and other countries and territories including mobile, cellular, wired or wireless telecommunications system, fiber optics, multi-channel transmission distribution systems and their value-added services such as but not limited to transmission of voice, data, facsimile, control signals, audio and video, information services bureau and all other telecommunications systems technologies, as are at present available or can be made available through technical advances or innovations in the future.

Since the implementation of its Subscriber Investment Plan, or SIP, in 1973 pursuant to Presidential Decree No. 217, which, until April 21, 2003, required telephone subscribers to purchase shares of PLDT's preferred stock, PLDT has developed a broad base of public ownership with approximately 2,193,525 common and preferred shareholders of record as at December 31, 2005. Approximately 2,176,980 of these shareholders are Philippine persons representing approximately 86% of PLDT's outstanding common and preferred shares. For purposes of the percentages described in this paragraph, all the ADSs evidenced by American Depositary Receipts, or ADRs, are considered to be held of record in the United States. As approved by the NTC, the purchase of PLDT preferred shares by PLDT subscribers pursuant to the SIP became optional starting April 22, 2003.

Our consolidated capital expenditures amounted to Php15,864 million, Php19,268 million and Php17,943 million in 2005, 2004 and 2003, respectively. Of these amounts, Php6,389 million, Php3,917 million and Php6,100 million were attributable to PLDT for 2005, 2004 and 2003, respectively, while Php8,785 million, Php14,721 million and Php11,305 million were spent by Smart for 2005, 2004 and 2003, respectively. The remaining balances were spent by our other subsidiaries, principally ePLDT and its subsidiaries.

Organization

As at May 31, 2006, our three largest shareholders were First Pacific, a Hong Kong-based investment and management company engaged in consumer, telecommunications and property businesses, which, through its Philippine and other affiliates, beneficially owned 31.36% of our common shares, NTT Communications, a wholly-owned subsidiary of NTT of Japan, which beneficially owned approximately 7% of our common shares, and DoCoMo, a majority-owned subsidiary of NTT, which owned approximately 7% of PLDT s common shares following its acquisition of such equity interest in PLDT from NTT Communications on March 14, 2006 which reduced NTT Communications ownership in PLDT s common shares from approximately 14% to approximately 7%.

PLDT and the following subsidiaries were all incorporated in the Philippines, except for PLDT Global, which was incorporated in the British Virgin Islands:

Name of Subsidiary/Investee	Principal Activity	Percentage of Ownership 2005	2004	2003
Wireless				
Smart and subsidiaries	Cellular mobile services	100.0	100.0	100.0
Telesat	Satellite communications services	94.4	94.4	94.4
ACeS Philippines	Satellite phone services	100.0	100.0	100.0
Mabuhay Satellite	Satellite communications services	67.0	67.0	67.0
Fixed Line				
Clark Telecom	Telecommunications services	100.0	100.0	100.0
Subic Telecom	Telecommunications services	100.0	100.0	100.0
Smart-NTT Multimedia, Inc.	Data and network services	100.0	100.0	100.0
PLDT Global and subsidiaries	Telecommunications services	100.0	100.0	100.0
PLDT-Maratel	Telecommunications services	97.5	97.5	97.5
BCC	Telecommunications, infrastructure and related value-added services	75.0	75.0	75.0
Information and Communications Technology				
ePLDT and subsidiaries	Information and communications infrastructure for Internet-based services, e-commerce, call centers and IT-related services	100.0	100.0	100.0

On September 2, 2004, Smart entered into a sale and purchase agreement to acquire 100% of Smart Broadband, a company primarily engaged in providing wireless broadband and data services to small and medium-scale enterprises in the Philippines, for a total consideration of US$45 million of which payments of US$11 million and US$7 million were made in 2004 and US$4 million in January 2005; the balance of US$23 million was paid on March 7, 2006. The acquisition aims to strengthen Smart s position in the wireless data segment and is in line with Smart s overall strategy of providing the widest range of innovative wireless services.

On July 2, 2004, Smart and PLDT entered into a deed of sale of shares under which Smart acquired from PLDT approximately 59.3 million shares of Piltel Class I, Series K Convertible Preferred Stock for approximately Php2,066 million. Smart converted 4.825 million of said shares into approximately 820.250 million Piltel common shares on July 9, 2004 and the balance of 54,467,720 shares were converted into 9,259,512,400 Piltel common shares on December 23, 2004. On April 25, 2005, PLDT and Smart entered into a subscription and assignment agreement under which PLDT assigned and transferred to Smart all of its 767 million shares of Piltel common stock in exchange for 11 million of Smart's preferred shares. As a result of the foregoing transactions, Smart's shareholdings in Piltel now represent 92.1% of Piltel's outstanding common shares and PLDT ceased to own any shares of Piltel's common stock.

On May 25, 2006, we announced that ePLDT and SPI Tech, L.P. entered into a non-binding letter of interest in respect of a potential acquisition by ePLDT of 100% of SPI Technologies, Inc., or SPI, one of the leading pure-play business process outsourcing, or BPO, companies and independent BPO service providers in the world. We currently expect to use internally generated cash funds to finance the possible acquisition by ePLDT of SPI. We believe that the possible acquisition of SPI would solidify ePLDT s position as one of the largest full service BPO companies. However, there is no obligation on the parties to negotiate definitive transaction documents and there is no assurance whether and on which terms the possible acquisition of SPI will be implemented and, if implemented, whether we will be able to realize any or all of the currently anticipated benefits of such acquisition.

Wireless

We provide cellular, satellite, VSAT, wireless broadband and other services through our various subsidiaries in the wireless business segment. Revenues from our wireless business accounted for 59%, 59% and 57% of our total operating revenues for the years ended December 31, 2005, 2004 and 2003, respectively. In 2005, 2004 and 2003, cellular service revenues accounted for 96%, 97% and 97%, respectively, of our wireless business service revenues.

We provide cellular services (including handset sales), through Smart and its subsidiary, Piltel. Smart is the leading cellular services provider in the Philippines, with 15,424,196 subscribers as at December 31, 2005, representing an estimated market share of approximately 45%. Piltel, a reseller of Smart's GSM network with its own branding, had 4,984,425 subscribers as at December 31, 2005, representing an estimated market share of approximately 14%. In 2005, the combined number of Smart's and Piltel's subscribers increased by 1,200,389, or 6%, to 20,408,621. As at December 31, 2005, cellular penetration in the Philippines reached approximately 41%, which was nearly ten times the country's fixed line penetration, although the existence of subscribers owning multiple SIMs has likely overstated this penetration rate to a certain extent.

Smart's and Piltel's cellular subscriber gains were predominantly attributable to their respective prepaid services. Approximately 99% of Smart s and all of Piltel s cellular subscribers were prepaid as at December 31, 2005. The predominance of prepaid service reflects one of the distinguishing characteristics of the Philippine cellular market. The growth in our prepaid service has enabled us to increase and broaden our subscriber base rapidly while controlling credit risk and reducing billing and administrative costs on a per-subscriber basis.

Our cellular subscriber growth has also been driven by text messaging. Text messaging is extremely popular in the Philippines, particularly on the prepaid platform, as it provides a convenient and inexpensive alternative to voice and e-mail based communications. During 2005, our text messaging systems handled over 43,586 million standard outbound text messages with another 52,374 million messages generated by the unlimited text offerings. This compares to 40,953 million standard outbound text messages in 2004; unlimited text services were not yet available in 2004.

Smart's Nokia-provided cellular network is the most extensive in the Philippines, covering substantially all of Metro Manila and most of the other major population centers in the Philippines. Its dual-band GSM network allows it to deploy high capacity 1800 MHz base transceiver stations, or BTS, in dense urban areas while its 900 MHz BTS can be much more economically deployed in less densely populated provincial areas. With 5,982 GSM base stations as of the end of December 2005, Smart s cellular network covers approximately 82% of all towns and municipalities in the Philippines, accounting for over 99% of the population. Piltel s services are also supported on the network.

Fixed Line

We are the leading fixed line operator in the Philippines. Our fixed line business group offers local exchange, international long distance, national long distance, data and other network and miscellaneous services. We had approximately 2.1 million fixed lines in service as at December 31, 2005. Revenues from our fixed line services accounted for 40% of our consolidated operating revenues in 2005.

Our 5,400-kilometer long digital fiber optic backbone is supported by an extensive digital microwave backbone. We are in the process of installing an additional 1,000-kilometer fiber optic link to accommodate the increasing demand for higher-capacity voice, data and video services. Our fixed line network reaches all of the major cities and municipalities in the Philippines, with a concentration in the Metropolitan Manila area. Our network offers the country's most extensive connections to international networks through three international gateway switching exchanges, satellite systems and various regional submarine cable systems in which we have interests.

Information and Communications Technology

Through our wholly-owned subsidiary, ePLDT, we provide broad-based integrated ICT services focusing on infrastructure and services for Internet applications, Internet protocol-based solutions and multimedia content delivery. ePLDT's principal activities are the operation of an Internet data center under the brand name *Vitro* , call center and Internet and gaming businesses. As the newest business in the PLDT group, revenues from our ICT services accounted for approximately 3% of our total operating revenues in 2005.

Strengths

We believe our business is characterized by the following competitive strengths:

• *Recognized Brands*. PLDT and Smart are strong and widely recognized brand names in the Philippines. We have built the PLDT brand name for over 75 years as the leading telecommunications provider in the Philippines. Smart is recognized in the Philippines as an innovative provider of high-quality cellular services. Piltel's *Talk N Text* brand, which is provided using Smart s network, has also gained significant recognition.

• *Leading Market Shares*. With over 22 million fixed line and cellular subscribers as at December 31, 2005, we have the leading market position in both fixed line and cellular markets in the Philippines.

• *Diversified Revenue Sources*. As a result of the continued growth of cellular service in the country, approximately 62% of our consolidated operating revenues in 2005 were derived from our wireless business segment. Fixed line revenues, which represented 40% of our consolidated operating revenues in 2005 and 2004, have remained stable over the past three years despite pressures on traditional fixed line voice revenues, resulting from increases in our fixed line data and other network services. We continue to identify and develop new revenue sources from our cellular, fixed line and ICT businesses.

• *Advanced Integrated Network*. With one of the most advanced and extensive telecommunications networks in the Philippines, we are able to offer a wide array of communications services. We are enhancing the capabilities of our fixed line and wireless networks to allow us to better exploit this competitive strength and achieve higher levels of network efficiency in providing voice and data services. In addition, we have commenced upgrading of our fixed line network to Next Generation Network, or NGN, and the rolling out of 3G and wireless broadband in order to increase broadband subscribers, and expand our data/broadband capabilities.

• *Innovative Products and Services*. We have successfully introduced a number of innovative and award-winning cellular products and services, including *Smart Load* and *Pasa Load. Smart Load* is an over-the-air electronic loading facility designed to make reloading of air time credits more convenient for, and accessible, to consumers. *Pasa Load* (the term pasa means transfer in the vernacular), is a derivative service of *Smart Load* that allows load transfers to other *Smart Buddy* and *Talk N Text* subscribers.

• *Strong Strategic Relationship*. We have important strategic relationships with NTT Communications, DoCoMo and First Pacific. The technological support, international experience and management expertise made available to us through these strategic relationships enhance our market leadership and ability to provide and cross-sell a more complete range of products and services.

Strategy

The key elements of our business strategy are:

• *Build on our leading positions in the fixed line and wireless businesses*. We plan to build on our position as the leading provider of fixed line service in the Philippines by continuing to launch new products and services to increase subscriber value and utilization of our existing facilities and equipment at reduced cost. We plan to build on our position as the leading wireless service provider in the Philippines by continuing to introduce new products and services to increase our subscribers' use of our network for both voice and data, as well as their reliance on our services. We are currently upgrading our fixed line facilities to a NGN and also rolling out a 3G network based on a W-CDMA technology as well as expanding our DSL and wireless broadband facilities. Our operating target is to continue growth in profitability by increasing our revenues while controlling our costs.

- *Capitalize on our strength as an integrated provider of telecommunications services*. We offer the broadest range of telecommunications services among all operators in the Philippines. We plan to capitalize on this position to maximize revenue opportunities by bundling and cross-selling our products and services. In addition, we are currently developing convergent products which feature the combined benefits of providing voice and data, and fixed line, wireless and ICT services utilizing our network and business platforms. We are also lowering our costs by integrating operations of our different businesses.

- *Strengthen our leading position in the data market*. Using our fixed line business, we are committed to further develop, enhance and lead our fastest growing business segment data and other network services. Consistent with our strategy of introducing innovative products and services using advanced technology, we have launched various products and services that address different market needs.

- *Strengthen our financial position*. We are working to increase our cash flow available for debt reduction and dividends by containing our operating costs, managing capital expenditures and generating cash returns from our investments in subsidiaries. Since December 2002, Smart has been regularly paying dividends to PLDT to supplement PLDT s cash flows available for debt reduction. The cash flows generated by our businesses have increased significantly in recent years which has allowed us to substantially reduce our levels of indebtedness and also restore the payment of dividends to our shareholders. In 2005, we repaid US$714 million of debts and paid common dividends aggregating Php9,587 million. We currently expect that a greater proportion of our free cash flow in succeeding years may be utilized for the payment of common dividends while continuing to service our maturing debt obligations.

Business

Wireless

We provide cellular, satellite, VSAT, wireless broadband and other services through our wireless business segment.

Cellular Service

Overview

$

21,237

$

865,053

Director, President and Chief Executive Officer

Mark K. Olson

2018

250,000

75,013

-

110,865

26,581

462,459

Executive Vice President, Chief Financial Officer

Rick W. Anderson

2018

220,500

66,029

-

92,742

25,395

404,666

PIB President and Chief Operations Officer

2017

210,000

-

-

94,500

30,742

335,242

(1) The figures shown for salary represent amounts earned for the fiscal year, whether or not actually paid during such year, and include amounts deferred pursuant to employee 401(k) plan.

(2) The amounts reported in this column represent the aggregate grant date fair value of the stock options or RSUs granted and is computed in accordance with FASB ASC Topic 718. The amounts do not represent amounts actually received by the named executive officers. For information on the valuation assumptions used in calculating these amounts, refer to Note 11 to our financial statements in the Form 10-K filed for the fiscal year ended December 31, 2018.

(3) Non-equity incentive plan compensation includes cash awards granted at the discretion of the Board of Directors for achieving certain performance-based criteria.

(4) The named executive officers participate in certain group life, health, disability insurance and medical reimbursement plans, that are generally available to salaried associates and do not discriminate in scope, terms and operation. The figure shown for each named executive officer also includes employer 401(k) contributions, and profit sharing, as applicable.

Employment Agreements

On February 28, 2019, the Company entered into the following agreements (collectively, the “Agreements”): (i) an employment agreement with Len E. Williams, Chief Executive Officer and President of the Company (the “Williams Agreement”); (ii) an employment agreement with Mark K. Olson, Chief Financial Officer and Executive Vice President of the Company (the “Olson Agreement”); and (iii) a change in control agreement with Rick W. Anderson, President and Chief Operations Officer of People’s Intermountain Bank (“PIB”) (the “Anderson Agreement”).

Len E. Williams

The Williams Agreement is effective as of January 1, 2019 (the "Effective Date") and expires on the third anniversary of the Effective Date, provided that on each anniversary of the Effective Date the term is automatically extended for an additional twelve-month period, unless terminated by a 90-day notice given by either party prior to the anniversary of the Effective Date. For 2019, the Company shall pay a minimum salary to Mr. Williams of $450,000, which amount is subject to adjustment as the Company's Board may determine from time to time.

The employment agreement provides for participation in a bonus based primarily on performance criteria in an incentive plan approved annually by the Company's Compensation Committee, ranging from a minimum 25% of base salary, a target of 50%, and a maximum of 75% of base salary. Mr. Williams is entitled to long-term incentives in the form of equity grants, as approved by the Company's Compensation Committee and Board. In addition, Mr. Williams is eligible to participate in all employee benefit plans, including health insurance benefits and 401(k) and ESOP plans.

The Company's Board may terminate the employment agreement at any time for cause or disability. In the event Mr. Williams terminates his employment for good reason or the Company terminates Mr. Williams' employment without cause, Mr. Williams is entitled to severance payments of his then base salary and a minimum 20% annual bonus for 18 months following such termination. The employment agreement also contains a change in control provision under which and subject to certain time periods and conditions precedent, Mr. Williams would be entitled to receive a lump sum severance payment in the amount equal to 36 months of his then base salary and minimum 20% annual incentive, and all unvested equity awards would immediately vest. A change in control under the employment agreement occurs when (i) any person or entity acquires 50% or more of the Company's then outstanding voting capital stock, (ii) the consummation of the sale or disposition by the Company or PIB of all or substantially all of the Company's or PIB's assets; or (c) the consummation of a liquidation of the Company or PIB.

Mark K. Olson

The Olson Agreement is effective as of January 1, 2019 (the "Effective Date") and expires on the last day of the thirtieth month after the Effective Date, provided that on each anniversary of the Effective Date the term is automatically extended for an additional twelve-month period, unless terminated by a 90-day notice given by either party prior to the anniversary of the Effective Date. For 2019, the Company shall pay a minimum salary to Mr. Olson of $275,000, which amount is subject to adjustment as the Company's Board may determine from time to time.

The employment agreement provides for participation in a bonus based primarily on performance criteria in an incentive plan approved annually by the Company's Compensation Committee, ranging from a minimum 20% of base salary, a target of 40%, and a maximum of 60% of base salary. Mr. Olson is entitled to long-term incentives in the form of equity grants, as approved by the Company's Compensation Committee and Board. In addition, Mr. Olson is eligible to participate in all employee benefit plans, including health insurance benefits and 401(k) and ESOP plans.

The Company's Board may terminate the employment agreement at any time for cause or disability. In the event Mr. Olson terminates his employment for good reason or the Company terminates Mr. Olson's employment without cause, Mr. Olson is entitled to severance payments of his then base salary and a minimum 20% annual bonus for 18 months following such termination. The employment agreement also contains a change in control provision under which and subject to certain time periods and conditions precedent, Mr. Olson would be entitled to receive a lump sum severance payment in the amount equal to 30 months of his then base salary and minimum 20% annual incentive, and all unvested equity awards would immediately vest. A change in control occurs when (i) any person or entity acquires 50% or more of the Company's then outstanding voting capital stock, (ii) the consummation of the sale or disposition by the Company or PIB of all or substantially all of the Company's or PIB's assets; or (c) the consummation of a liquidation of the Company or PIB.

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Rick W. Anderson

The Anderson Agreement is effective as of January 1, 2019 for a one-year term. Under the change of control provision in the Anderson Agreement, Mr. Anderson would be entitled to receive a lump sum severance payment in the amount equal to 12 months of his then base salary and minimum 20% annual incentive, and all unvested equity awards would immediately vest. A change in control occurs when (i) any person or entity acquires 50% or more of the Company's then outstanding voting capital stock, (ii) the consummation of the sale or disposition by the Company or PIB of all or substantially all of the Company's or PIB's assets; or (c) the consummation of a liquidation of the Company or PIB.

Outstanding Equity Awards at Fiscal Year-End

The following tables set forth information regarding share options and similar equity compensation grants outstanding as of December 31, 2018, whether granted in 2018 or earlier, including awards that have been transferred other than for value.

	Option Awards				Share Awards		
Name	Number of Shares or Underlying Unexercised Options Exercisable	Number of Shares or Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	RSU Grant Date	Number of Shares or Units of Stock that have not vested	Market value of Shares or Units of Stock that have not vested (1)
Len E. Williams (2)	-	-	-	-	9/1/2017	6,400	$ 192,960
	-	-	-	-	1/1/2018	4,148	125,062
Mark K. Olson (3)	-	-	-	-	7/1/2017	1,624	48,964
	-	-	-	-	1/1/2018	2,039	61,476
Rick W. Anderson (4)	15,978	-	$ 12.10	12/31/2024	1/1/2018	1,798	54,210

(1) As of December 31, 2018 the market value per share was $30.15.
(2) Len E. Williams' share awards include: (i) 6,400 restricted stock units remaining from the 9,600 originally granted on September 1, 2017; and (ii) 4,148 restricted stock units granted on January 1, 2018. Each grant vests over a three year period from the grant date.
(3) Mark K. Olson's share awards include: (i) 1,624 restricted stock units remaining from the 2,437 originally granted on July 1, 2017; and (ii) 2,039 restricted stock units granted on January 1, 2018. Each grant vests over a three year period from the grant date.
(4) Rick W. Anderson's share awards include 1,798 restricted stock units granted on January 1, 2018. These restricted stock units vest over a three year period from the grant date.

Equity compensation plan information

The Company currently has three equity compensation plans: the People's Utah Bancorp 2014 Incentive Plan, the People's Utah Bancorp Amended and Restated 2008 Incentive Plan, and the People's Utah Bancorp Incentive Plan. All three equity compensation plans were approved by the shareholders for the issuance of stock-based compensation to officers, other employees and directors. Any future awards will be granted under the 2014 Plan. There are no equity compensation plans that have not been approved by the shareholders. For additional information on outstanding stock options and non-vested restricted stock awards, see Note 11 to the Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in our Annual Report on Form 10-K.

The following table sets forth information regarding outstanding options and shares reserved for future issuance as of December 31, 2018:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column(a)) (c)
Equity compensation plans approved by the shareholders	393,087	$ 13.38	336,219

(a) Consists of 350,643 shares for stock options and 42,444 shares for restricted stock units.
(b) Excludes the impact of restricted stock units, which are exercised for no consideration.

BENEFICIAL OWNERSHIP

The following table sets forth information regarding the beneficial ownership of our common shares as of January 31, 2019 by:

- each person, or group of affiliated persons, known to us to beneficially own more than 5% of the outstanding common shares;
- each of our directors and director nominees;
- each of our named executive officers; and
- all of our executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. In computing the number of common shares beneficially owned by a person and the percentage ownership of that person, we deemed outstanding common shares subject to options or other convertible or exercisable securities held by that person that are currently exercisable or convertible, or exercisable or convertible within 60 days of January 31, 2019 (hereinafter referred to as “Additional shares”). Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. The percentage of beneficial ownership is based on 18,789,874 common shares outstanding, plus the Additional shares attributed to that person.

Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table below have sole voting and investment power with respect to all common shares shown as beneficially owned by them. Unless otherwise indicated, the address of each of the individuals named below is c/o People’s Utah Bancorp, 1 East Main Street, American Fork, Utah 84003.

Name of Beneficial Owner as of January 31, 2019	Common Shares Beneficially Owned Number	Percent	
Named Executive Officers and Directors:			
Paul R. Gunther [(1)]	876,573	4.66	%
Dale O. Gunther [(2)]	641,001	3.41	%
David G. Anderson [(3)]	628,822	3.34	%
Fred W. Fairclough, Jr. [(4)]	395,761	2.11	%
Jonathan B. Gunther [(5)]	226,078	1.20	%
Richard T. Beard [(6)]	223,230	1.19	%
Wolfgang T. N. Muelleck [(7)]	107,312	*	
Rick W. Anderson [(8)]	46,369	*	
R. Brent Anderson [(9)]	39,476	*	
Douglas H. Swenson [(10)]	24,479	*	
Matthew Browning [(11)]	16,041	*	
Deborah S. Bayle [(12)]	11,817	*	
Len E. Williams [(13)]	5,142	*	
Natalie Gochnour [(14)]	2,934	*	
Mark K. Olson [(15)]	1,492	*	
All Executive Officers and Directors as a Group (18 persons)	3,258,268	17.34	%

*Represents beneficial ownership of less than 1%.

(1) Paul Gunther's ownership includes: (i) 863,544 common shares held by The Paul Gunther Family LLC, in which Paul Gunther is a manager and exercises shared voting power and sole investment power; (ii) 8,700 common shares held directly; and (iii) 4,329 common shares that may be acquired within 60 days by exercising stock options.

(2) Dale Gunther's ownership includes: (i) 101,585 common shares held by Dale Gunther personally; (ii) 531,696 common shares held by DRG Partners Ltd., in which Dale Gunther is a managing partner; and (iii) 7,720 common shares that may be acquired within 60 days by exercising stock options.

(3) David Anderson's ownership includes: (i) 615,184 common shares held by Davemar Holding, LLC, in which David Anderson is the managing member; and (ii) 13,638 common shares held directly.

(4) Fred Fairclough's ownership includes: (i) 30,411 common shares owned directly; (ii) 22,424 common shares held by FF Leasing, Ltd., in which Fred Fairclough is the general partner; and (iii) 342,926 common shares owned by Christine Fairclough, the spouse of Fred Fairclough.

(5) Jonathan Gunther's ownership includes: (i) 167,328 common shares held by Gunther Investments LC, in which Jonathan Gunther is a member and manager; (ii) 50,886 common shares held by The Living Trust of Jonathan Blaine Gunther & Lisa Peterson Gunther, in which Jonathan Gunther is the trustee; and (iii) 7,864 common shares that may be acquired within 60 days by exercising stock options.

(6) Richard Beard's ownership includes: (i) 86,993 common shares held by The Richard T Beard Trust, for which Richard Beard serves as trustee; (ii) 103,908 common shares held directly; and (iii) 32,329 common shares that may be acquired within 60 days by exercising stock options.

(7) Wolfgang Muelleck's ownership includes: (i) 101,014 common shares held by The Muelleck Family Trust, for which Wolfgang Muelleck serves as a trustee and shares voting power; and (ii) 6,298 common shares that may be acquired within 60 days by exercising stock options.

(8) Rick Anderson's ownership includes: (i) 30,000 common shares held by the Cindy B. Anderson Trust, for which Rick Anderson is a trustee; and (ii) 16,369 common shares held directly.

(9) Brent Anderson's ownership includes: (i) 604 common shares held by the Camille Anderson Trust, for which Brent Anderson is a trustee; (ii) 27,872 common shares held directly; and (iii) 11,000 common shares that may be

acquired within 60 days by exercising stock options.

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(10) Douglas Swenson's ownership includes: (i) 11,450 common shares held by The Douglas and Laraine Swenson Family Trust, for which Douglas Swenson is a trustee; (ii) 8,700 common shares held directly; and (ii) 4,329 common shares that may be acquired within 60 days by exercising stock options.

(11) Matt Browning's ownership includes 16,041 common shares that may be acquired within 60 days by exercising stock options.

(12) Deborah Bayle's ownership includes: (i) 3,813 common shares; and (ii) 8,004 common shares that may be acquired within 60 days by exercising stock options.

(13) Len Williams' ownership includes 5,142 common shares.

(14) Natalie Gochnour's ownership includes 2,934 common shares that may be acquired within 60 days by exercising stock options.

(15) Mark Olson's ownership includes 1,492 common shares.

Certain Relationships and Related-Party Transactions

In addition to the compensation arrangements with directors and executive officers described in "Executive Compensation" above, we were a participant in certain transactions and relationships with related persons as more fully described below.

Loans to Officers, Directors and Affiliates

The Bank may make loans to officers, directors and associates on terms permitted under Regulation O. We believe the Bank is in compliance with Regulation O and with the Sarbanes-Oxley Act of 2002. All loans made by the Bank to officers, directors or associates are in the ordinary course of business, are of a type generally made available to the public, and are on market terms no more favorable than those offered to persons not related to the Bank, except for the waiver of certain loan fees and a minor reduction in certain loan interest rates as part of a benefit program as allowed by Regulation O. This benefit is widely available to all of our officers, directors or associates of the Bank and PUB and does not give preference to any insider over the other employees. All loans the Bank makes to our executive officers or directors, are subject to prior approval by our Board of Directors, except where such prior approval is not required by law. As of December 31, 2018, we had available lines of credit for loans and credit cards to insiders of $1.0 million and loans outstanding to insiders of $5.6 million. As of December 31, 2018, no related party loans were categorized as non-accrual, past due, restructured or potential problem loans. All such loans are currently in good standing and are being paid in accordance with their terms.

Indemnification of Officers and Directors

Pursuant to our bylaws, we may, to the fullest extent permitted by the Utah Revised Business Corporation Act, indemnify our directors and officers with respect to expenses, settlements, judgments and fines in suits (including actions brought against a director or officer in the name of the corporation, commonly referred to as a derivative action) in which such person was made a party by reason of the fact that he or she is or was a director, officer, employee, fiduciary or agent of the Company. No such indemnification may be given if the acts or omissions of the person are finally adjudged to be intentional misconduct or a knowing violation of law, if such person is liable to the corporation for an unlawful distribution, or if such person personally received a benefit to which he or she was not entitled.

We have entered into separate indemnification agreements with our executive officers and directors, in addition to the indemnification provided for in our bylaws. These agreements, among other things, require us to indemnify our executive officers and directors for certain expenses, including attorneys' fees incurred by an executive officer or director in any action or proceeding arising out of their services as one of our executive officers or directors, or as an executive officer or director of any of our subsidiaries or any other company or enterprise to which the person provides services at our request.

Other Related-Party Transactions

Philip Gunther is the son of Dale O. Gunther and is the Chief Credit Administration Officer of PIB. Philip Gunther received $198,711 for his services in 2018. Philip Gunther is not an executive officer of PUB.

Bruce Gunther is the son of Dale O. Gunther and is the Business Development Director of PIB. Bruce Gunther received $173,466 for his services in 2018. Bruce Gunther is not an executive officer of PUB.

With respect to these transactions, we have followed the procedures outlined below. In particular, decisions regarding compensation and equity grants were made only by disinterested persons.

Policies and Procedures Regarding Related-Party Transactions

Transactions by the Bank or us with related parties are subject to a formal written policy, as well as regulatory requirements and restrictions. These requirements and restrictions include Sections 23A and 23B of the FRA, and Regulation W (which govern certain transactions between the Bank and its affiliates) and Regulation O (which governs certain loans by us and the Bank to its executive officers, directors, and principal shareholders). The Bank and we have adopted policies designed to ensure compliance with these regulatory requirements and restrictions.

Our Board of Directors has adopted a written policy governing the approval of related-party transactions that complies with all applicable requirements of the SEC and NASDAQ concerning related-party transactions. Related-party transactions are transactions in which we are a participant and a related party has or will have a direct or indirect material interest. Related parties include our current and former directors (including nominees for election as directors) and our executive officers, beneficial holders of more than 5% of our capital stock and the immediate family members of these persons. It is our policy that either the Audit and Compliance Committee or the independent directors of our Board of Directors acting, in executive session, review and approve all related-party transactions, including any loans to our officers, directors and principal shareholders, as well as their immediate family members and affiliates, for potential conflicts of interest. The Audit and Compliance Committee, or the independent directors of the Board of Directors, will consider, among other factors, the related party's interest in the transaction, the materiality of the related-party transaction to us and the related party, whether the transaction with the related party is proposed to be entered into on terms no less favorable to us than terms that could have been reached with an unrelated third party, the purpose of, and the potential benefits to us of, the related-party transaction, the perceived impact on the independence of a director related party and other information regarding the related-party transaction or the related party in the context of the proposed transaction that the Audit and Compliance Committee, or the independent directors of the Board of Directors, deem relevant. If the conflict of interest relates to any member of the Audit and Compliance Committee or any independent director of the Board of Directors, the conflicted person recuses himself or herself from all discussions relating to the conflict of interest. The Chief Executive Officer, or a senior officer designated by the Chief Executive Officer, will resolve any conflict of interest issue involving any other associate.

SHAREHOLDER PROPOSALS

Shareholders may present proposals for action at a future meeting if they comply with SEC rules, state law and our Amended and Restated Bylaws.

Pursuant to Rule 14a-8 under the Exchange Act, some shareholder proposals may be eligible for inclusion in the proxy statement for our 2020 annual meeting of shareholders. These shareholder proposals, along with proof of ownership of our stock in accordance with Rule 14a-8(b)(2), must be received by us not later than December 16, 2019, which is 120 calendar days prior to the anniversary date of when our proxy statement was released to shareholders in connection with the Annual Meeting. Shareholders are also advised to review our Bylaws, which contain additional advance notice requirements, including requirements with respect to advance notice of shareholder proposals (other than non-binding proposals presented under Rule 14a-8) and director nominations.

Our Amended and Restated Bylaws provide that in order for business to be properly brought before an annual meeting by a shareholder, the shareholder must, in addition to any other applicable requirements, give written notice in proper form of such shareholder's intent to bring a matter before the annual meeting, which notice must be received by the Secretary of the Company at the Company's principal executive offices no later than the close of business on the sixtieth (60th) day, nor earlier than the close of business on the ninetieth (90th) day, prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that no annual meeting was held in the previous year or the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the shareholder to be timely must be so received no earlier than the close of business on the ninetieth (90th) day prior to such annual meeting and not later than the close of business on the later of either (i) the sixtieth (60th) day prior to such annual meeting or (ii) the close of business on the 10th day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made by the Company, whichever occurs first. In no event shall the public announcement of a postponement or adjournment of an annual meeting to a later date or time commence a new time period for the giving of a shareholder's notice as described above.

It is recommended that shareholders submitting proposals direct them to our corporate secretary and utilize certified mail, return receipt requested, in order to provide proof of timely receipt. The chairman of the annual meeting reserves the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements, including conditions set forth in our Amended and Restated Bylaws and conditions established by the SEC.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act, requires our directors, officers, and persons that own more than 10 percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC. Officers, directors and shareholders with greater than 10 percent ownership are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

We believe that all Section 16(a) filing requirements that apply to our directors and executive officers were complied with for the fiscal year ended December 31, 2018, other than: Len E. Williams, a director and CEO, Richard T. Beard, a director and former CEO, and Lane Wilson, former Senior Vice President/Chief Sales Officer, each of whom filed one report after the filing deadline due to administrative oversight; and Robert Brent Anderson, a director, and Fred W. Fairclough, Jr., a director, each of whom filed two reports after the filing deadline due to administrative oversight.

OTHER MATTERS

The Company is unaware of any business, other than described in this Proxy Statement that may be considered at the Annual Meeting. If any other matters should properly come before the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the proxies held by them in accordance with their best judgment.

To assure the presence of the necessary quorum and to vote on the matters to come before the Annual Meeting, please promptly indicate your choices via the internet, by phone or by mail, according to the procedures described on the proxy card. The submission of a proxy via the internet, by phone or by mail does not prevent you from attending and voting at the Annual Meeting.

Where You Can Find More Information

This report is available free of charge on our internet website, www.peoplesutah.com. On our website, we will make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other information and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. This reference to our website is for the convenience of investors as required by the SEC and shall not be deemed to incorporate any information on, or accessible through, our website into this Annual Report.

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PEOPLE'S UTAH BANCORPEVENT #CLIENT #PROXY TABULATOR FORPeople’s uta h ba ncorpP.O. BOX 8016CARY, NC 27512-The undersigned hereby appoints Adelaide Maudsley and Jon Allen, and each or either of them, as the true and lawful attorneys of the undersigned, with full power of substitution and revocation, and authorizes them, and each of them, to vote all the common shares of People’s Utah Bancorp which the undersigned is entitled to vote at said meeting and any adjournment thereof upon the matters specified and upon such other matters as may be properly

brought before the meeting or any adjournment thereof, conferring authority upon such true and lawful attorneys to vote in their discretion on such other matters as may properly come before the meeting and revoking any proxy heretofore given. THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, SHARES WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS IN ITEM 1 AND FOR THE PROPOSAL IN ITEM 2. All votes must be received by 5:00 P.M., Eastern Time, May 21, 2019.MAILOR • Mark, sign and date your Proxy Card/Voting Instruction Form.• Detach your Proxy Card/Voting Instruction Form.• Return your Proxy Card/Voting Instruction Form in thepostage-paid envelope provided.ORGo To www.proxypush.com/pub• Cast your vote online.• View Meeting Documents.• Use any touch-tone telephone.• Have your Proxy Card/Voting Instruction Form ready.• Follow the simple recorded instructions.866-221-8481INTERNET TELEPHONEVOTE BY:PEOPLE'S UTAH BANCORPAnnual Meeting of People’s Utah Bancorpto be held on Wednesday, May 22, 2019for Shareholders as of March 29, 2018This proxy is being solicited on behalf of the Board of DirectorsPlease separate carefully at the perforation and return just this portion in the envelope provided.For3: To consider and act upon any other matterswhich may properly come before the meetingor any adjournment thereof.2: To ratify the selection of Moss Adams LLP as the Company’s Independent RegisteredPublic Accounting Firm for the fiscal yearending December 31, 2018.Date: May 23, 2018Time: 8:00 A.M. (MDT)Place: 31 North Church Street, American Fork, UtahAnnual Meeting of People’s uta h ba ncorpPlease Sign Here Please Date AbovePlease Sign Here Please Date AbovePlease sign exactly as your name(s) appears on your stock certificate. If held in joint tenancy, allpersons should sign. Trustees, administrators, etc., should include title and authority. Corporationsshould provide full name of corporation and title of authorized officer signing the proxy.Authorized Signatures - This section must becompleted for your Instructions to be executed.ForForForForFor Against AbstainDirectorsRecommendWithholdPlease make your marks like this: Use dark black pencil or pen only01 R. Brent Anderson02 Paul R. Gunther03 Douglas H. Swenson04 Len E. WilliamsBoard of Directors Recommends a Vote FOR proposals 1 and 2.1: Election of Class II DirectorsForCall

Proxy — People’s Utah BancorpAnnual Meeting of ShareholdersMay 22, 2019, 8:00 A.M. Mountain Daylight TimeThis Proxy is Solicited on Behalf of the Board of Directors

The undersigned appoints Adelaide Maudsley and Jon Allen (the “NamedProxies”) and each of them as proxies for the undersigned, with full power ofsubstitution, to vote the common shares of People’s Utah Bancorp, a Utahcorporation (“the Company”), the undersigned is entitled to vote at the AnnualMeeting of Shareholders of the Company to be held at the 31 North ChurchStreet, American Fork, Utah, on Wednesday, May 22, 2019 at 8:00 A.M. (MDT)and all adjournments thereof.The purpose of the Annual Meeting is to take action on the following:1. Proposal 1 - Election of Class III Directors;2. Proposal 2 - Ratify the Selection of Moss Adams LLP as the Company’sIndependent Registered Public Accounting Firm for the fiscalyear ended December 31, 2019; and3. Transact such other business as may properly come before the AnnualMeeting or any adjournment or postponement of the Annual Meeting.The three directors up for election are: Richard T. Beard, Matthew S. Browning,and Natalie Gochnour.The Board of Directors of the Company recommends a vote “FOR” all nomineesfor director and “FOR” each proposal.This proxy, when properly executed, will be voted in the manner directedherein. If no direction is made, this proxy will be voted “FOR” all nomineesfor director and “FOR” each proposal. In their discretion, the Named Proxiesare authorized to vote upon such other matters that may properly comebefore the Annual Meeting or any adjournment or postponement thereof.You are encouraged to specify your choice by marking the appropriate box(SEE REVERSE SIDE) but you need not mark any box if you wish to votein accordance with the Board of Directors’ recommendation. The Named

Proxies cannot vote your shares unless you sign and return this card.