



# CIRCULAR FOR BROKERS NO. 3367-2004

## The Philippine Stock Exchange, Inc.

_____ Disclosures	_____ Stockholders' Meeting	Others: _____
_____ Dividend Notice	_____ SEC / Gov't Issuance	_____
_____ Stock Rights Notice	_____ Transfer Agent's Notice	_____

Date : **July 27, 2004**  
 Subject : **PILIPINO TELEPHONE CORPORATION**  
**Comprehensive Corporate Disclosure**

This is further to Circular for Brokers nos. 3155-2004 and 3178-2004 dated July 12 and 13, 2004, respectively, pertaining to the issuance by Pilipino Telephone Corporation ("Piltel") of 820,250,000 Shares to cover the conversion of 4,825,000 Class 1 Series K convertible preferred shares ("Preferred-K shares") held by Smart Communications, Inc. ("Smart") at a conversion ratio of 170:1. Considering that this issuance represents 32.7% of the total outstanding shares of common stock of Piltel, please be informed that the Revised Rule on Additional Listing of Shares may be applied to the said transaction.

In this connection and in compliance with Section 4 of the Revised Rule on Additional Listing of Shares, Piltel submitted on July 26, 2004, the attached Comprehensive Corporate Disclosure on the details of the transaction including but not limited to the following:

- a) Acquisition by Smart of 59,292,720 Class 1 Series K Convertible Preferred shares of stock of Piltel;
- b) Creation of the Class 1 Series K Convertible Preferred shares of Piltel and the Issuance of the Preferred-K Shares;
- c) Conversion of 4,825,000 Preferred-K shares;
- d) Aggregate Value of the Preferred-K Shares and the Basis of its Issue Value;
- e) Audited Financial Statements of Smart;
- f) Confirmation of Smart's Resulting Ownership in Piltel;
- g) Confirmation of the objective of the issuance and conversion of the Preferred-K shares to consolidate all group-wide wireless telecommunications results of the PLDT group under Smart;
- h) Summary of the Major Terms and Conditions of the Agreements between Smart and Piltel Creditors; and
- i) Interest of Directors.

Finance / Admin / Membership	Compliance & Surveillance Grp.	Listing & Disclosures Grp.	COO / Automated Trading Grp.	Business Dev't & Info. Group	CEO / Legal
Tel. No.688-7560/7440/7460	Tel. No. 688-7559	Tel. No. 688-7501/7510	Tel. No. 688-7405/819-4400	Tel. No. 688-7590	Tel. No. 688-7400/819-4408



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Copies of the following Annexes to the Comprehensive Corporate Disclosure of Piltel are available at the PSE libraries for your reference:

- Annex "A" : Sale and Purchase Agreement dated July 2, 2004
- Annex "A-1" : Deed of Sale of Shares dated July 2, 2004
- Annex "B" : Resolutions adopted by the Board of Directors of Piltel at a meeting held on 27 February 2001
- Annex "B-1" : Summary of Terms and Conditions of the Class 1 Series K Convertible Preferred shares of Piltel
- Annex "C" : Copy of the Conversion Notice filed by Smart equivalent to 4,825,000 Preferred-K shares
- Annexes "D", "D-1" and "D2" : Copies of the audited financial statements of Smart for the years ended December 31, 2001 to 2003.
- Annex "E" : Summary of the Terms and Conditions of the Agreements between Smart and Piltel Creditors

Pursuant to Section 3 of the Revised Rule on Additional Listing of Shares:

**"Section 3. Trading Halt-** The trading of the shares of the Issuer shall be halted for one (1) hour upon announcement or disclosure of any information leading to the transaction(s). Another one (1) hour trading halt shall be implemented upon dissemination of the Comprehensive Corporate Disclosure required herewith."

In view thereof, Piltel shares shall be subject to a **trading halt** pursuant to the aforementioned Rule and **shall be lifted one (1) hour from dissemination hereof.**

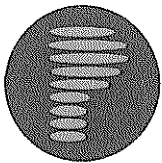
For your information and guidance.

*(Original Signed)*  
**MARIA ISABEL T. GARCIA**  
*Head, Listings Department*

**Noted by:**

*(Original Signed)*  
**JURISITA M. QUINTOS**  
*Senior Vice President- Operations Group*

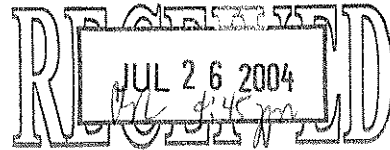
Finance / Admin / Membership	Compliance & Surveillance Grp.	Listing & Disclosures Grp.	COO / Automated Trading Grp.	Business Dev't & Info. Group	CEO / Legal
Tel. No.688-7560/7440/7460	Tel. No. 688-7559	Tel. No. 688-7501/7510	Tel. No. 688-7405/819-4400	Tel. No. 688-7590	Tel. No. 688-7400/819-4408



**PILTEL** July 26, 2004

**PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Centre, Exchange Road  
Ortigas Center, Pasig City  
Metro Manila

P S E - LISTINGS DEPARTMENT



Attention: **Ms. Maria Isabel T. Garcia**  
*Head, Listings Department*

**Ms. Claudine E. Cruz**  
*Supervisor, Listings Department*

Subject: **Pilipino Telephone Corporation**  
**Series K Convertible Preferred Shares of Smart Communications, Inc.**

Gentlemen:

This is in reference to the issuance by Pilipino Telephone Corporation ("PILTEL") of 820,250,000 shares of common stock in favor of Smart Communications, Inc. ("SMART") pursuant to the conversion by SMART of 4,825,000 Class 1 Series K Convertible Preferred shares of stock of PILTEL. This disclosure is being filed by PILTEL in compliance with your letter dated July 20, 2004 referring to Circular for Brokers No. 3165-2004, dated July 12, 2004.

The details of the aforementioned transaction are as follows:

**A. Acquisition by SMART of 59,292,720 Class 1 Series K Convertible Preferred shares of stock of PILTEL**

On July 2, 2004, SMART acquired a total of 59,292,720 Class 1 Series K Convertible Preferred shares of stock of PILTEL (the "Preferred-K Shares") from its parent company, Philippine Long Distance Telephone Company ("PLDT") at the purchase price of Php 2,066,351,292. Each of PLDT and SMART agreed that the purchase price for the Preferred-K Shares shall be paid, and such purchase price was paid, by deducting the amount thereof from the amounts owing from PLDT to SMART arising primarily from interconnection charges. Given this, SMART issued an acknowledgement confirming that the amount owing to SMART from PLDT has been reduced to the extent of the amount of the above purchase price. In the same acknowledgment, which PLDT countersigned, PLDT confirmed that the deduction of the amount equivalent to the purchase price from the amount owing from PLDT to SMART constituted full payment of the purchase price for the Preferred-K Shares. A copy of the Sale and Purchase Agreement dated July 2, 2004 and the implementing Deed of Sale of Shares dated July 2, 2004 are hereto attached as Annexes "A" and "A-1", respectively.

**B. Creation of the Class 1 Series K Convertible Preferred shares of stock of PILTEL and the Issuance of the Preferred-K Shares**

- (1) The Class 1 Series K Convertible Preferred Stock (the "Series K Stock") of PILTEL was created pursuant to a Master Restructuring Agreement dated June 21, 2000 as amended on December 12, 2000 and December 19, 2000 (the "MRA").

- (2) Under the Resolutions adopted by the Board of Directors of PILTEL on February 27, 2001 relative to the creation of the Series K Stock (the "Resolutions"), holders of the Series K Stock are entitled, among other rights, to convert each outstanding share of Series K Stock into such number of shares of the common stock of PILTEL by multiplying the number of shares of Series K Stock to be converted by the ratio of 170/1 (as may be adjusted in accordance with the Resolutions.) A copy of the Resolutions and a summary of the major terms and features of the Series K Stock are hereto attached as Annexes "B" and "B-1", respectively.
- (3) On June 4, 2001, PILTEL completed the restructuring of approximately Php 41.1 billion of indebtedness and other claims owed to banks, trade creditors (including the contingent liability of JP¥31,288.2 million (or Php 13,666.7 million) as of December 31, 2000 arising out of the Build Transfer Agreement with Marubeni Corporation of Japan), bondholders and preferred shareholders, representing approximately 98% of its total liabilities as of that date.

As a result of the June 4, 2001 debt restructuring:

- (i) Php 20.5 billion of PILTEL's debt was released in consideration of 58,086,845 PILTEL Series K Stock, which were mandatorily and immediately exchanged by the participating creditors for 11,617,369 shares of convertible preferred stock of PLDT ("PLDT CPS");
- (ii) Php 20.5 billion of PILTEL's debt was restructured into loans having 10 to 15 year terms;
- (iii) PILTEL granted a security interest in substantially all its real and personal property primarily for the benefit of the participating creditors, and secondarily for the benefit of the participating holders of preferred shares and the non-participating creditors; and
- (iv) PLDT issued a letter of support ("LOS") for the benefit of PILTEL and its creditors, under which PLDT is obligated to provide up to US\$150.0 million to make up for the shortfalls in PILTEL's operating cash flows required to discharge its obligations to its creditors.<sup>1</sup>

Subsequently, in 2002 and 2003 additional creditors holding approximately Php 820 million of PILTEL debt acceded to the debt restructuring of PILTEL. A total of Php 410 million, representing 50% of the additional restructured debt was released in consideration for a total of 1,205,875 shares of Series K Stock issued to the participating creditors which were then transferred to PLDT in exchange for a total of 241,175 PLDT CPS.

As of June 30, 2004, over 99% of PILTEL's total indebtedness had been restructured, and PILTEL had issued a total of 59,292,720 shares of Series K Stock. As of that date, the cumulative dividends accruing on those shares which has not been declared or paid was Php 2,689 million.

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<sup>1</sup> As of June 30, 2004, US\$50.2 million remained available under the PLDT LOS. In consideration for amounts released under the LOS, PILTEL issued 4,927,093 shares of PILTEL Series J Class 1 Preferred Stock ("Series J Stock") to PLDT carrying an issue value of Php 4,927.0 million.

- (4) Thus, immediately prior to July 2, 2004, PLDT, which owns 100% of SMART's outstanding capital stock, owned the Preferred-K Shares, representing 3.36% of the then outstanding capital stock of PILTEL.

**C. Conversion of 4,825,000 Preferred-K Shares**

- (1) On July 9, 2004, SMART converted a total of 4,825,000 Preferred-K Shares to 820,250,000 shares of common stock of PILTEL, equivalent to 32.65% of total outstanding shares of common stock of PILTEL after such conversion (the "Tranche 1 Conversion"). A copy of the Conversion Notice filed by SMART in accordance with the Resolutions is hereto attached as Annex "C".
- (2) As of the date hereof, SMART continues to hold and is the registered owner of the remaining 54,467,720 Preferred-K Shares (the "Preferred-K Conversion Shares")
- (3) It is PILTEL's understanding that SMART intends to convert said Preferred-K Conversion Shares into an additional 9,259,512,400 shares of common stock of PILTEL (the "Common Exchange Shares") or 78.7% of the resulting outstanding shares of common stock of PILTEL after such conversion.
- (4) PILTEL does not currently have sufficient unissued shares of common stock out of its authorized capital stock to accommodate the full conversion of all the Preferred-K Conversion Shares. Thus, it is PILTEL's understanding that SMART intends to convert these Preferred-K Conversion Shares into the Common Exchange Shares from the increase in authorized capital stock of PILTEL. For this purpose,
  - (i) the Board of Directors of PILTEL, during its meeting held on June 30, 2004, approved an increase in the authorized capital stock of PILTEL from Php 3,500,000,000.00 to Php 12,800,000,000.00 and the number of shares of common stock from 2,760,000,000 with par value of Php 1.00 each to 12,060,000,000 shares of common stock with par value of Php 1.00 each; and
  - (ii) a Special Meeting of the Stockholders of PILTEL shall be held on September 3, 2004 to approve, among other corporate actions, the aforesaid increase in the authorized capital stock of PILTEL.

**D. Aggregate Value of the Preferred-K Shares and the Basis of its Issue Value**

- (1) Each Preferred-K Share was subscribed and issued at Php 340, as follows: one (1) Preferred-K Share was issued in exchange for every Php 340 worth of debt held by a participating creditor under the MRA (at an exchange rate of Php 47.05 = US\$1.00 for dollar-denominated debts and Php 1.00 = JP¥2.39522 for yen-denominated debts). As discussed in Part B paragraph (3) above, 58,086,845 Preferred-K Shares were issued by PILTEL to participating creditors in consideration of the release of Php 20.5 billion of PILTEL debt, which were mandatorily and immediately exchanged by the participating creditors for 11,617,369 PLDT CPS, while 1,205,875 Preferred-K Shares were issued by PILTEL to participating creditors in consideration of the release of a total of Php 410 million of PILTEL debt which were likewise mandatorily and immediately exchanged by the participating creditors for 241,175 PLDT CPS.

- (2) As discussed in Part A above, SMART acquired the Preferred-K Shares from PLDT, its parent company, at the purchase price of Php 2,066,351,292 or Php 34.85 per share. Since each Preferred-K Share is convertible to 170 common shares, SMART's effective acquisition price for the 820,250,000 common shares issued under the Tranche 1 Conversion and the Common Exchange Shares to be issued upon conversion of the Preferred-K Conversion Shares is Php 0.205 per share.

**E. Audited Financial Statements of SMART**

Copies of the audited financial statements of SMART for the years ended December 31, 2003, December 31, 2002 and December 31, 2001 are hereto attached as Annexes "D", "D-1" and "D-2", respectively.

**F. Confirmation of SMART's Resulting Ownership in PILTEL**

- (1) PILTEL confirms that at present, SMART is the registered owner of 820,250,000 shares of common stock of PILTEL, equivalent to 32.7% of the total outstanding common shares of stock of PILTEL, after the Tranche 1 Conversion.
- (2) After the increase in PILTEL's authorized capital stock and the conversion of the Preferred-K Conversion Shares to the Common Exchange Shares (the "Conversion"), PILTEL confirms that SMART will acquire an additional 9,259,512,400 shares, representing 78.6%, and together with the 820,250,000 common shares acquired by SMART under the Tranche 1 Conversion 85.63%, of the resulting outstanding common shares of stock of PILTEL.

**G. Confirmation of Objective**

PILTEL confirms that, as stated in the SEC Form 18-A filed by SMART ("SMART's 18-A Report"), the objective of the Tranche 1 Conversion and the Conversion as described above is to consolidate all group-wide wireless telecommunications results of the PLDT group under SMART. At present PLDT, the parent company of SMART, divides its core operations into three distinct business lines, namely (i) fixed line; (ii) information and communications technology; and (iii) wireless (through SMART and PILTEL). With the Tranche 1 Conversion and the Conversion, SMART's total shareholding in PILTEL shall be 10,079,762,400 shares of common stock, equivalent to 85.63% of the resulting outstanding common capital stock of PILTEL, which will make SMART the parent company of PILTEL.

**H. Summary of Major Terms and Conditions of the Agreements between SMART and PILTEL Creditors**

- (1) In March 22, 2004, PILTEL's Board of Directors announced that Smart informed them, at its meeting held that day, of SMART's intention to issue letters of invitation to creditors of PILTEL inviting said creditors, subject to certain terms and conditions, to offer to sell their debts to SMART in exchange for cash (in US Dollars or Pesos) and/or US\$-denominated loan obligations of SMART and/or the delivery of US\$-denominated bonds guaranteed by the Republic of the Philippines.

(2) It is PILTEL's understanding, based on SMART's 18-A Report, that on July 2, 2004, SMART concluded the aforesaid debt exchange transaction and had received, from a significant portion of PILTEL's creditors who did not participate in the transaction, waivers to certain provisions of the agreements governing PILTEL's restructured indebtedness, allowing SMART to close the transaction. PILTEL confirms that, as a result of the debt exchange transaction, SMART is now PILTEL's largest creditor, holding US\$289 million or 69.4% of PILTEL's US\$417 million restructured debt. A summary of the major terms and conditions of the agreements entered into by SMART with the creditors of PILTEL, including a list of such creditors (classified according to the amount of restructured debt) and the type of settlement accepted by said creditors in exchange for the PILTEL debt held by them (i.e. cash [in US dollars or Pesos] or US\$-denominated loan obligations of SMART maturing in December 2007, December 2008, June 2014 [fixed rate] or June 2014 [variable yield]) is hereto attached as Annex "E".

**I. Interest of Directors**


Except for the performance of their responsibilities as directors to consider and approve, based on their best business judgment, the issuance of the 820,250,000 common shares of stock of PILTEL upon the conversion of the 4,825,000 Preferred-K Shares, the increase in the authorized capital stock of PILTEL and the issuance of the Common Exchange Shares from such increase, the directors of PILTEL have no interest in any of the foregoing transactions. To the best knowledge and belief of PILTEL, the directors of SMART have no interest in the acquisition of the Preferred-K Shares, the conversion thereof into common shares of stock of PILTEL and the debt exchange transaction, other than to perform their responsibilities as directors to consider and approve the same, based on their best business judgment.

We trust that we have sufficiently advised you on the foregoing. Should you have any questions or require clarification, please do not hesitate to contact us.

Very truly yours,

**PILIPINO TELEPHONE CORPORATION**

By:



**Deborah Anne N. Tan**  
*Corporate Information Officer*