

## Industry Updates

For the period: February 18-29, 2008

### KPMG Philippines weekly Information, Communications and Entertainment news summary

*This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG.*

#### PLDT delays upgrade to address congestion issues

THE Philippines' largest telecommunications company has delayed its planned upgrade to its New Generation Network (NGN)—which, like the Internet, transmits voice, data and video in packets—while it addresses congestion issues within its current system. The Philippine Long Distance Telephone Co. (PLDT) told the National Telecommunications Commission (NTC) that it is currently decommissioning switches and/or facilities to reduce the load on their congested trunks.

As a result, subscribers of Bayan Telecommunications Inc. (Bayan) and Philippine Telegraph & Telephone Corp. (PT&T) have been unable to call up PLDT numbers. "Internal network congestion being experienced by PLDT and not call restriction are the causes of inaccessibility issues experienced by carriers connected to network of PLDT," said the company.

In December last year, PLDT said it tapped British Telecom (BT) to assist the company in its transformation to a new generation communications company. "We have actually engaged with the advisory group of British Telecom to help us plan the transition on NGN," said PLDT chairman Manuel Pangilinan.

A study is being drafted to determine how long the migration from a so-called legacy system to an NGN will take place. Pangilinan said PLDT wants to learn from the experiences of BT, one of the world's leading providers of communications solutions and services operating in 170 countries. BT is a wholly-owned subsidiary of BT Group plc, and encompasses virtually all businesses and assets of the BT Group. BT Group plc is listed on stock exchanges in London and New York.

Source: *Business Mirror . Lenie Lectura . February 22, 2008*

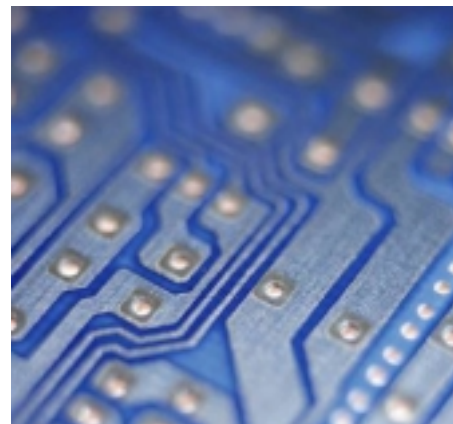
#### Philippines Set For 24 Million Web Users: Study -AFP

The number of Internet users in the Philippines is set to reach 24 million this year, up from 14 million in 2006, a study released Friday estimated. The study, by market research firm AC-Nielsen, said the sharp growth was due to the large number of Internet cafes and the availability of low-cost computers.

The study said that there were only 7.82 million users of the Internet in 2005, and two million in 2000. Tarun Sawney, Asia director at Business Software Alliance, which released the report, said the availability of affordable computers could see Internet users in the Philippines increase by 50% every two years.

Source: *Dow Jones International News . February 22, 2008*

## Information, Communications and Entertainment



### In the news

#### Communications

PLDT delays upgrade to address congestion issues

Philippines Set For 24 Million Web Users: Study -AFP

#### BPO & Outsourcing

BPOs can be competitive at P25-P37:\$1, say execs

#### Electronics & Software

Local businesses spending more on innovation, says IT exec

Sun Microsystems to acquire MySQL for \$1B, says CEO

BayanTrade acquires companies in Singapore, Indonesia

Premiere Entertainment to acquire Korean firm

Cebu City sees \$ 255-million revenues by 2010

#### Media

Rival networks vie for \$12.6-M gaming market

#### Travel, Leisure & Tourism

Waterfront spending P5B to buy hotels

### BPOs can be competitive at P25-P37:\$1, say execs

Offshoring and outsourcing (O&O) operations in the Philippines can continue growing even if the peso strengthens further, heads of two information technology and business process outsourcing (BPO) companies said. Enrique Gonzales, chief executive of IT firm IPVG, said at a news briefing: "The US economic slowdown is pressuring companies to offshore, and with US workers paid five times more than a local worker, the Philippines would still be competitive even if the peso soars to P25 against the dollar."

"But there are other conditions that must be present: That other currencies are also rising in the face of a weaker dollar, that BPOs reach economies of scale to maximize their resources, and that they prepare for currency changes through hedging and cost management programs.", he added. In a statement, Outsource2Philippines.com (O2P) chief executive Frank Holz said, "While it is difficult to establish a specific peso-to-dollar exchange rate at which the Philippines will no longer be competitive in global O&O markets, the data suggests a range of P35 to P37 per \$1."

Holz said a recent survey by O2P of 62 companies, done in cooperation with the Business Processing Association of the Philippines (BPA/P), found that BPOs generally downplayed the impact of the strengthened peso on their businesses and did not consider it to be a significant issue. In answer to a survey question on the exchange rate at which their services would cease to be price-competitive, 20 percent of the respondent companies said a P39-P42 per dollar would be the break point, 13 percent said P37-P38, and 51 percent indicated a rate below P37 to the dollar, with the lowest at P30. 16 percent indicated no rate.

Respondents in the O2P-BPA/P survey indicated that their actions in response to the peso's rise were focused on reduction of overhead costs and raising billing rates, Holz said. Others indicated moderation of salary and benefit increases, as well as increasing operational efficiencies and raising staff productivity to counteract the negative impact of the peso's rise. Represented in the O2P-BPA/P survey were contact centers (31 percent), third-party BPOs (28 percent), captive BPOs (26 percent), software companies (28 percent), companies in other services, including medical and legal transcription, animation companies (21 percent), and support services companies (30 percent). Edited by INQUIRER.net  
Source: *Philippine Daily Inquirer* . Riza T. Olchondra . February 28, 2008

### Local businesses spending more on innovation, says IT exec

Businesses today are not cutting costs and instead are pouring budgets into IT to drive innovation and increase revenues, according to an executive from SAS Institute. "As the old adage goes, you need to spend money to make money," said Roger Shears, director for global performance management for North Carolina-based SAS Institute, which specializes in business intelligence software.

Shears is in the country for the annual SAS users' forum, which was attended by some 1,000 executives, including those whose companies use SAS software. "A lot of the questions were business-related and not technical anymore," Shears said in an interview. So if businesses today are not as cost-conscious, does that mean companies have more dispensable IT budgets, not only limited to hardware?

"Not that businesses have more money, it's more of companies today are allocating more money into insight and foresight...investing in future profitability through analytics," Shears replied. The goal of business intelligence (also referred to as BI) is basically to enable "insight and foresight" and help CEOs come up with better decisions based on existing customer data, for example.

SAS said its revenues in the Philippines jumped 45 percent last year, about half of it coming from non-traditional markets outside of banks and telecom companies whose services are anchored on customer data. This indicates the positive level of adoption for BI among local companies, Shears said.

Source: *INQUIRER.net* . Lawrence Casiraya . February 29, 2008

### Sun Microsystems to acquire MySQL for \$1B, says CEO

Sun Microsystems CEO and President Jonathan Schwartz announced that the company is planning to acquire MySQL AB, the company behind open source database MySQL, for \$1 billion. Schwartz made this announcement in his blog in Sun's website. Schwartz is also a member of Sun's board of directors. He was appointed Sun's CEO in 2006, succeeding Scott McNealy, co-founder and current chairman of the board. "[The] biggest news of the day is... we're putting a billion dollars behind the M in LAMP. If you're an industry insider, you'll know what that means — we're acquiring MySQL AB, the company behind MySQL, the world's most popular open source database," Schwartz wrote in his recent blog entry.

"So why is this important for the Internet?"

Economic Indicators NCR registers fivefold increase in visitors even as overall domestic travel dips by 22%

Hotel occupancy increase expected

“Until now, no platform vendor has assembled all the core elements of a completely open source operating system for the internet. No company has been able to deliver a comprehensive alternative to the leading proprietary OS. With this acquisition, we will have done just that — positioned Sun at the center of the web, as the definitive provider of high-performance platforms for the web economy. For startups and web 2.0 companies, to government agencies and traditional enterprises, [t]his creates enormous potential for Sun, for the global free software community, and for our partners and customers across the globe.” Schwartz said.

In a statement, Sun said the acquisition will make the company a “formidable player in the \$15-billion database market.” MySQL is being downloaded 60,000 times a day, or once every two seconds, according to Sun. Sun stressed that this acquisition does not change its relationship with Oracle and Sybase in the marketplace. “Just as Sun supports customer choice of platform through AMD, Intel and SPARC, customers will have a choice of database systems for use with Sun’s platform offerings,” Schwartz said in a statement.

Source: *INQUIRER.net* . February 27, 2008 . Erwin Oliva

### **BayanTrade acquires companies in Singapore, Indonesia**

Local IT services firm BayanTrade has acquired companies in Singapore and Indonesia as part of its regional expansion. In a statement, the company announced it acquired CITP Singapore Pte. Limited and its subsidiary, PT Columbus IT Indonesia.

The deal was signed between Bayantrade Singapore Pte., the company’s business entity in Singapore, and CITP mother company Columbus IT Partner. Under the deal, BayanTrade would acquire 100 percent of CITP Singapore which in turn has controlling interest in PT Columbus IT Indonesia. Terms of the deal, however, were not disclosed.

The acquisition is in line with BayanTrade’s regional expansion, anchored on its partnership with German software giant SAP. Bayantrade plans to offer vertical industry solutions designed for SAP end-users. CITP Singapore and PT Columbus are both engaged in software development and consulting, according to Bayantrade, and cater to small and medium businesses or SMBs.

Installed base includes customers in construction, distribution, manufacturing, pharmaceuticals and retail sectors. PT Columbus IT Indonesia has offices in Jakarta and Surabaya. In a previous interview, Dante Briones, BayanTrade president and CEO, said the company hopes to generate at least \$6 million from its initial public offering locally in April.

Source: *INQUIRER.net* . Lawrence Casiraya . February 21, 2008

### **Premiere Entertainment to acquire Korean firm**

Publicly-listed Premiere Entertainment Productions, Inc. (PEP) is set to acquire Korean controlled Digiwave Solutions, Inc. (DWI), one of the leading online gaming and software development companies in the Philippines, through a P200-million deal.

The firms have signed a share swap agreement which calls for the issuance of P50 million worth of PEP shares in exchange for 100 percent ownership of Digiwave. The selling shareholders of Digiwave will also infuse at least P150-million cash into PEP. Both PEP and DWI agreed to rename their new company Premiere Entertainment Philippines, Inc. After the share swap and cash infusion, DWI shareholders will control 69.8 percent of PEP while original PEP shareholders will be left 30.2 percent.

Digiwave is a Philippine-based entertainment and IT company founded in August 9, 2006. Its principal business is in software development and provision, particularly for leisure gaming purposes. The company’s goal is to establish itself as the market leader in Internet gaming software in the Philippines and eventually compete in the international arena anchored on their proven expertise, experience and innovations in interactive gaming and entertainment.

State-of-the-art South Korean technology and a dedicated, highly-skilled Filipino workforce powers Digiwave. Digiwave Chairman Jung Ku Lee said his firm is currently the second supplier of games via PhilWeb to Pagcor Electronic Gaming Stations (PEGS) nationwide.

Source: *Manila Bulletin* . James A. Loyola . February 26, 2008

### **Cebu City sees \$ 255-million revenues by 2010**

Cebu is expecting to generate \$ 255 million revenues in software development by 2010. Bonifacio Belen, executive director of the Cebu Educational Development Foundation for Information Technology (Cebu-IT), said this means that 15,000 more job opportunities will be opened for software developers in Cebu province.

In a study conducted by the Commission on Information and Communication Technology (CICT) and Business Process Association of the Philippines (BPAP), Cebu earned \$ 60 million and employed 3,500 software developers in 2006. The

BPAP predicted that for the next five years the country will get at least 10 percent or \$ 1.2 billion of the total global business process outsourcing (BPO) earnings of \$ 110 billion to \$ 130 billion.

Customer care, human resources, medical transcription and animation are among the BPOs and information technology enabled services (ITES) that will flourish and fuel country's economic growth in 2010, according to BPAP. Belen said a summit is slated in Cebu this year to be participated by major stakeholders of Open Source Technology across the world to discuss how the Open Source movement is changing the rules of the game for ICT.

"It will have speakers from Cebu and other countries, who will discuss issues such as open source applications, infrastructure and technical success factor, challenges and risks of open source, and best practices for open source governance," Belen said, adding that it will help Cebu to get the substantial share or 20 percent of the national target of of \$ 1.2 billion in 2010. He said the ICT sector in Cebu has been active in coming up with programs and in establishing networks with different companies to ensure growth in the sector.

Source: *Manila Bulletin* . Danny Fajardo . February 24, 2008

### Rival networks vie for \$12.6-M gaming market

RIVAL TV NETWORKS ABS-CBN Broadcasting Corp. and GMA Network Inc. are taking their competition to the gaming arena as their respective gaming units race to dominate the estimated \$12.6-million gaming market in 2008. The networks are taking different routes to gaming glory. ABS-CBN has its wholly owned unit Amped Games. The unit registered 2.5 million active users for 2007 and wants to double that to 5 million in 2008, said Mitch Padua, Amped Games division head.

Amped Games, which is more than three years old, is seeking more distributors for its Amped Games Cards and is expanding its sales force to better serve provincial markets. GMA is catching up by forging an P800-million joint venture called I-Play with listed conglomerate IPVG Corp., which has an existing active player base of 2.5 million.

"As technology and the market evolves, a network needs to explore new channels to remain relevant," GMA chair Felipe Gozon said during the launch of I-Play. I-Play gives GMA instant access to the gaming market, and the unit is more focused on the fast-growing market for casual games, which are essentially simple pastime games compared to the complicated role playing games. To maximize its earning potential, I-Play will use online gaming as a new form of advertising featuring local content and artists.

Source: *Philippine Daily Inquirer* . Riza T. Olchondra . March 03, 2008

### Waterfront spending P5B to buy hotels

Gatchalian-owned Waterfront Philippines, Inc. is allotting some P5 billion for the acquisition of up to four hotels within the next two years, a top company official said. "We're always in that process of expanding our hotel business. We're in talks with various parties and exploring ways to develop our brand in the first-class business hotel and casino [segment]," Waterfront President Kenneth T. Gatchalian in an interview.

Mr. Gatchalian said the company wants to purchase properties that will only need refurbishments. Funding will be sourced internally. The hotel acquisitions will be executed through Waterfront's affiliates as the company wants to insulate its books from any transaction. "Waterfront would not be the lead party in those transactions. We want to improve our revenue base without adding more debt to the company," Mr. Gatchalian said. The company hopes to be free of debt by early 2009 after repaying its remaining obligations, which stood at P900 million last year.

"We're renovating our facilities and conducting management services. We target to finish the renovations within the next two years, after which we can [change the name] into a Waterfront brand," Mr. Gatchalian said. Waterfront has close to 1,550 rooms in all of its hotels, employs 1,560 employees, and has over 41,000 square meters of convention and casino space. It houses the country's biggest gaming facilities. Aside from Manila Pavilion, the hotel chain includes Waterfront Cebu City Hotel and Casino, Waterfront Airport Hotel and Casino Mactan, and Waterfront Insular Hotel Davao.

These hotels enjoyed an occupancy rate of between 65% and 75% last year with rates ranging from P2,800 to P3,000, Mr. Gatchalian said. This year, he said, the company aims to increase hotel occupancy rates to between 70% to 75% along with a rate increase to between P3,000 and P3,500. Waterfront is 60% controlled by The Wellex Group, Inc., which is owned by plastics king William Gatchalian. Waterfront's subsidiaries include Waterfront Promotions Ltd., Waterfront Entertainment Corp., Mayo Bonanza, Inc., Grand Ilocandia Resort Development, Inc., Waterfront Food Concepts, Inc., Waterfront Management Corp., and W Citigyms and Wellness, Inc.

Source: *BusinessWorld* . Lovely Nica P. Lee . February 27, 2008

### Economic Indicators NCR registers fivefold increase in visitors even as overall domestic travel dips by 22%

Domestic travel went down 22.37% in the first half of the year, data from the Department of Tourism (DoT) show, as reports from some regions have yet to be factored in. For the period of January to June 2007, data from the DoT show that

domestic travel dipped to 7,846,586 total visitors from 10,107,783 for the same period in 2006. Partial reports show that the biggest downturns occurred in Southern Luzon and Western Mindanao, which exhibited losses of 62.87% and 65.74%, respectively.

The Department of Tourism admitted that these negative numbers might not reflect reality since they could be due to the delays in report submissions of hotels in the said areas. Oriental Mindoro, for example, which was responsible for drawing more than 3.5 million of Southern Luzon's 4,979,540 visitors in 2006 was unaccounted for during the January to June 2007 period. Palawan - another top attraction in Southern Luzon was also unaccounted for in DoT's report.

The National Capital Region (NCR) posted a 480.57% increase in visitors, bringing the tally up to 615,667 visitors from 106,046 in 2006. The spike in data may be attributed to the addition of newly constructed hotels reporting to DoT. Average hotel occupancy rate in NCR for the same period increased to 73.89% from 72.39% in 2006. The big winner at the provincial level, in terms of number of visitors, is Cebu. The province attracted 748,006 visitors from January to June 2007 up from 603,843 visitors in 2006, beating traditional favorites Boracay and Baguio for the top spot.

Source: *Dow Jones International News* . February 06, 2008

### Hotel occupancy increase expected

The Hotel and Restaurant Association of the Philippines (HRAP) expects hotel occupancy rates in the country to rise to as much as 95% this year as more tourists consider the Philippines a viable destination. Association Chairman and President Humphrey O'Leary III said the government's target of about 3.5 million foreign visitors is likely to boost occupancy rates to 85%-95% from 77% in 2007.

Mr. O'Leary said rising investments in the local hotel industry are expected to fill in a shortage in hotel rooms, serviced apartments, villatels and condotels particularly in major tourist destinations such as Cebu, Boracay and Palawan. For instance, he said big-ticket European hotel operator Accor Group is developing a multi-million peso bed and breakfast in Cebu City. He said investors are now concentrating on developing hotels outside Metro Manila, citing Surigao, Davao and Bohol as emerging investment destinations.

"We are very optimistic about Bohol. We think it may even overtake Boracay," Mr. O'Leary said in an interview. Mr. O'Leary said that in Metro Manila, there are over 13,000 rooms accredited by the Department of Tourism, while in Cebu and Boracay, there are close to 5,000 and 4,631, respectively. The average room rates for an overnight stay in Makati and Cebu are less than P10,000 a night, compared to P10,343/night in Boracay, the average room rate is P10,343. Shangri-La Makati posted the highest occupancy rate among all the Makati-based hotels at over 90%, while the rest averaged at the upper 80%.

HRAP is a non-stock, non-profit organization, is an umbrella organization of owners of such businesses. Government data showed an 8.7% increase in tourist arrivals last year to more than three million from 2006. It also showed that tourists last year spent a total of \$4.885 billion, or 40% more than the \$2.622-billion tourist spending recorded in 2006. The top 10 tourist sources last year were: South Korea, US, Japan, China, Australia, Taiwan, Hong Kong, Singapore, Canada, and the United Kingdom.

Source: *BusinessWorld* . Bernardette S. Sto. Domingo . February 25, 2008

### Feedback

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