PRESENTATION OUTLINE

- The Philippine Economy
- The Philippine Advantage
- Investment Opportunities
- Building the Philippines as an E-Services Hub of Asia
- Moving Forward
THE PHILIPPINE ECONOMY
Philippines: At a glance

- **Land Area**: 300,000 km²
- **Population**: 80,429,492 (of which 83.76% belongs to 0-44 age groups)
- **Capital City**: Metro Manila
- **Political Structure**: Democratic (Presidential System)
- **National Language**: Filipino
- **Official Language**: English
- **Religion**: 93% Christian Believers of which 83% are Catholic
The Philippine Economy

Macroeconomic Performance

- GNP exceeded the government’s forecast
- GDP accelerated in 2003 despite numerous threats

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forecast</td>
<td>Actual</td>
</tr>
<tr>
<td>GNP</td>
<td>4.5</td>
<td>4.5 – 5.4</td>
</tr>
<tr>
<td>GDP</td>
<td>4.4</td>
<td>4.2 – 5.2</td>
</tr>
<tr>
<td>NFIA</td>
<td>5.1</td>
<td>9.5 – 18.9</td>
</tr>
</tbody>
</table>

Source: NEDA

Growth Rates (%)

GNP: 0.1, 3.6, 4.2, 3.7, 5.2, 5.5
GDP: -0.5, 3.2, 3.9, 3.3, 4.6, 4.5

Source: NEDA

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The Philippine Economy

Inflation Under Control

1997-2003 Average: 5.65%


0 2 4 6 8 10 12

6.0 6.7 9.8 4.4 3.9 3.1 3.1

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THE PHILIPPINE ADVANTAGE
The Philippine Advantage

Open Market Economy Reforms

**Growth-Oriented**
- Deregulation of key industries and services
- Privatization of government corporations
- Strengthening of the capital markets and banking system

**Business Friendly**
- Allows 100% foreign-equity participation
- Market-oriented foreign exchange policies
- Guarantee of basic rights and interests for investors

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The Philippine Advantage

Quality Human Resource

- **Competitive labor force (quality, cost & availability)**
- **3rd largest English speaking nation**
- **World-class English language proficiency with capability for some Asian languages**
- **Fast learning curve (needs only 6-8 weeks to learn technical skills)**
- **Long tradition of excellence in the professions**
- **Strong work ethics and customer orientation**
- **Universal Cultural Adaptation**

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The Philippine Advantage
Strategically Located in Asia

- **Regional Hub for Logistics**
  - FEDEX, UPS, Lufthansa Technik

- **Critical entry point to the important over 550 Million People ASEAN Market**

- **Reachable within 4 hours by plane from Asian key cities**
  - Japan
  - Korea
  - China
  - Singapore
  - Taiwan
  - Thailand
  - Indonesia

<table>
<thead>
<tr>
<th>CITY</th>
<th>Flight Hours</th>
<th>CITY</th>
<th>Flight Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frankfurt</td>
<td>1300</td>
<td>Tokyo</td>
<td>0335</td>
</tr>
<tr>
<td>Paris</td>
<td>1640</td>
<td>Seoul</td>
<td>0400</td>
</tr>
<tr>
<td>Stockholm</td>
<td>1650</td>
<td>Shanghai</td>
<td>0220</td>
</tr>
<tr>
<td>London</td>
<td>1400</td>
<td>Singapore</td>
<td>0300</td>
</tr>
</tbody>
</table>

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The Philippine Advantage

Reliable Infrastructure Support

- **Expanding Multi-media Infrastructure**
  - 24x7x 365 support operation
  - Aggressive lead times in provisioning of international leased circuits: 30-45 days

- **Deregulated Telecommunications Industry**
  - More stable, robust, highly scalable due to numerous fiber optic landings/links
  - Cost of bandwidth has gone down by 70% in the last 4 years

- **Presence of Dedicated IT Parks Right in the Center of Business Districts**
The Philippine Advantage

Strong Affinity With West

- Historical
- Educational
- Political
- Accounting
  Adherence to Generally Accepted Accounting Principles (GAAP) & progressively moving to International Accounting Standards (IASB Guidelines)
- Legal
- Banking & Finance
- Entertainment
The Philippine Advantage

Competitive Investment Incentives

INVESTMENT INCENTIVES
(Domestically Incorporated Firms & Branch Offices)

- 4 to 8 years Income Tax Holiday
- Special 5% tax rate on gross income after the lapse of ITH (for IT Park locators)
- Tax and duty exemption on imported capital equipment (for IT Park locators)
- Unrestricted use of consigned equipment
- Deduction for training expense
- Exemption from wharfage dues
- Employment of foreign nationals
- Exemption from 10% input VAT on allowable local purchase of goods and services (e.g., communication charges)
The Philippine Advantage

Competitive Investment Incentives

INVESTMENT INCENTIVES
(Regional Headquarters)

I. Expatriates
   1. Multiple Entry Visa
   2. Tax & Duty Free Importation of Household Goods & Personal Effects
   3. Travel Tax Exemption
   4. Withholding Tax of Fifteen Percent (15%)
The Philippine Advantage

Competitive Investment Incentives

INVESTMENT INCENTIVES
(Regional Headquarters)

II. RHQ/ROHQ
1. Corporate Income Tax
   > RHQ – exempt
   > ROHQ – 10% on taxable income
     – to pay branch profit of ROHQ remits income derived from Philippine resources
2. Tax and Duty Free Importation of Training Materials/Equipment
3. VAT Exempt
   > RHQ – exempt
   – sale or lease of goods and property, and rendition of services to RHQ shall be subject to 0% VAT
The Philippine Advantage

Hospitable Lifestyle

- Friendly people
- Value-for-money housing
  - US$ 722 - 2,706 per Month
  - (130-306 Sq. Met. 3-BR Semi-furnished Apartment, Makati CBD)\(^1\)
- Modern recreational facilities
- Availability of first-rate educational institutions and international schools
  - British School
  - German School
  - Mandarin Chinese School
  - Japanese Schools

\(^1\) Philippine Property Market Overview by Colliers International (End 2003 Survey)

(US$ 1.00 = Php 55.438)

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Investment Opportunities
INVESTMENT OPPORTUNITIES

- Investment Priorities Plan (IPP)
  - Export Activities – all industries export processing zones
  - Metals and Processing - Iron & Steel
  - Exploration/Mining – coal,
  - Solid Waste Mgt - Recycling/Treatment Facilities, Sanitary Landfill
  - Industries in regional locations – Pharmaceuticals, Textile, Consumer manufacturers, Tourism, etc.
  - Other Preferred Industries – Agricultural, Energy, Infrastructure, R&D
  - Other industries specifically approved by Board of Investments
Sectors with inherent competitiveness

- **IT and IT enabled services** (Call Center, BPO/Shared Services Operation, Engineering Design, Graphics and Media)
- **Construction Materials Products**
- **Food Products**
- **Electrical & Electronics Products**
- **Motor Vehicles (including parts & accessories)**
- **Wooden products (home and office furniture, etc.)**
- **Other Priority Sectors – Fun, Fashion, 3 T’s (Telecoms, Transport, Tourism), Logistics, Medical Tourism / Healthcare Services, Education, Medium Cost Housing, Retirement Villages**
OTHER OPPORTUNITIES ARISING from:

- The Foreign Investment Act (FIA)
- Deregulation of Industries
  - Airlines, Banking, Shipping, Insurance, Downstream Oil Sector, Mining, Agri Products, Steel, Power, Water Utilities, Telecoms (local government projects are abundant)
- Privatization of Enterprises
  - 30 GOCCs up for privatization
    - Mactan-Cebu International Airport Authority
    - National Power Corporation (on-going)
    - PNOC-Energy Development Corporation
IT-Enabled Services
Building the Philippines as an e-SERVICES Hub

- IT & IT-Enabled Services
  - Contact Center
  - Business Process Outsourcing
  - Software Development
  - Mobile / Wireless Applications
  - Engineering and Design
  - Animation
Call Center Industry

In 2003:
Sites: 50+ call centers
Total Seats: 20,000
Total Employees: 30,000
Total Revenue: USD 180 – 200 Million
Projected Growth Rate: 100%

- Majority of the top call centers have set up operations over the last two years
  - Convergys, Teletech, Sykes, ICT, APAC, Six Continents, PeopleSupport, SourceOne

- Clients handled are Fortune 500 companies
  - Nokia, Safeway, Intel, Microsoft, Epson, Kodak, Armani Exchange, Expedia
**Call Center Industry**

Tremendous growth of call centers due to confluence of factors

<table>
<thead>
<tr>
<th>Year</th>
<th># of Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,000</td>
</tr>
<tr>
<td>2001</td>
<td>3,500</td>
</tr>
<tr>
<td>2002</td>
<td>7,500</td>
</tr>
<tr>
<td>2003</td>
<td>20,000</td>
</tr>
<tr>
<td>Est 2004</td>
<td>40,000</td>
</tr>
</tbody>
</table>
Business processes outsourced to the Philippines

- **Financial / Accounting** - General accounting & bookkeeping services, Accounts maintenance, Accounts receivable collection, Invoice & accounts payable administration, Claims processing (pre-need industry), Expense and revenue reporting, Payroll (including overtime tracking), Asset management/accounting, Financial analysis and auditing, Management advisory services, Inventory control & purchasing, Tax reporting & other financial-related services (financial leasing, credit cards, factoring and stock brokering)

- **HR** – Payroll Processing, Benefits Administration, Compensation Planning, Travel & Expense Management, Expatriate & Relocation Services, HR Data Management, Stock Options Administration, Employee Interface Services, Learning Systems Administration, HR Application Dev’t. & Management

- **Other Business Processes** – Data Entry/Data Processing (e.g. policy registration/amendment, scanning, indexing), Pre-need accreditation, Inventory Control, Technology Support, Server Management, Litigation support, Scholarly publishing, Content conversion
<table>
<thead>
<tr>
<th>Company</th>
<th>Services Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIG</td>
<td>Insurance Claims Processing</td>
</tr>
<tr>
<td>Alitalia</td>
<td>General and Passenger Accounting</td>
</tr>
<tr>
<td></td>
<td>(Credit Card Ticketing Functions, Auditing, Ticket Stocks / Inventory Functions)</td>
</tr>
<tr>
<td>Asiana Airlines</td>
<td>Revenue Accounting</td>
</tr>
<tr>
<td>Caltex (Chevron Texaco)</td>
<td>Finance and accounting support</td>
</tr>
<tr>
<td>Canon</td>
<td>R &amp; D on computer hardware design</td>
</tr>
<tr>
<td>Cypress Semiconductors</td>
<td>Payroll, Fixed Assets, Accounts Payable, Cost Accounting</td>
</tr>
<tr>
<td>Fluor Daniel</td>
<td>Engineering and design services</td>
</tr>
<tr>
<td>Maersk (formerly Sealand)</td>
<td>Finance and Accounting Services</td>
</tr>
<tr>
<td>MBK Data (Mitsui)</td>
<td>Credit Rating Analysis</td>
</tr>
</tbody>
</table>
MOVING FORWARD

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Moving Forward – IT Services
Sustaining Growth and Quality Service

- Benchmarks and standards
  - Standards for basic competencies developed with industry & TESDA (customer services, representative level 2, telesales/marketing level 3)
  - Awards and recognition programs being developed
Moving Forward

Education/Training
- English strengthened in basic education per President's instruction
- Presence of call center academies

Building Other Hubs
- Data generation/build-up on-going
- Project on labor profiling/sourcing under discussion

Establish a BPO Association
Thank You!

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