Doing Business in the Philippines
The Philippines stands on the cusp of a new era of prosperity, with great opportunities to effect lasting socioeconomic, political and cultural reforms. Our economy remains resilient, cushioned by a dynamic local consumer market, continued foreign investment, and sound performance in key growth industries.

An integral platform of our administration is to establish stronger, more streamlined linkages with global business sectors. We have prepared plans, programs, and legislation to encourage partnerships with local and international investors. There is renewed confidence in the Philippines and its potential for business investments. We are committed to full transparency, collaboration and efficiency. Procedures for business registration are being reviewed and simplified, with the objective of stimulating new businesses and supporting entrepreneurship.

This issue of “Doing Business in the Philippines”, published by SGV & Co., offers only a snapshot of the immense growth potential of our country - the competitiveness of our industries, the resilience of our talented workforce, the richness of our resources, and our revitalized political will, which are all vital to our nation's progress. I wish to invite the international business community to join me and our people as we tread the path to economic resurgence.

BENIGNO S. AQUINO III
MANILA
MESSAGE

We recognize the importance of generating new investments to sustain the growth of the Philippine economy over the long haul.

Riding on renewed investor sentiment, the government is now taking the next step to further streamline business transactions and, in the process, reduce the cost of doing business. This is in keeping with our objective of having a more investor-friendly atmosphere.

With the government and the private sector working hand in hand to ensure a stable and predictable economic environment, investors are all the more encouraged to make sound investment decisions and take advantage of long-term opportunities that go with infusing additional capital.

As we accelerate our efforts of promoting the country in the global community, a corresponding surge of enthusiasm resounds in the private sector. We laud SGV’s unabated commitment in coming up with this publication, Doing Business in the Philippines, to prime potential investors for the numerous opportunities that await them the moment they set foot on Philippine shores.

We are confident that with the active participation of the private sector, the government will sustain economic development as the Philippines attains a high level of growth.

GREGORY L. DOMINGO
Secretary
# Table of contents

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Why you should invest in the Philippines</strong></td>
<td></td>
</tr>
<tr>
<td>The Philippines at its Finest</td>
<td>1</td>
</tr>
<tr>
<td>Technology and Innovation Stronghold</td>
<td>2</td>
</tr>
<tr>
<td>Steadfast in Tough Times</td>
<td>3</td>
</tr>
<tr>
<td>Prime Location</td>
<td>4</td>
</tr>
<tr>
<td>Living Made Easy</td>
<td>5</td>
</tr>
<tr>
<td>Schools</td>
<td>5</td>
</tr>
<tr>
<td>Graduate School</td>
<td>6</td>
</tr>
<tr>
<td>Rest and Recreation</td>
<td>7</td>
</tr>
<tr>
<td>The Best of Pinoy Creativity</td>
<td>8</td>
</tr>
<tr>
<td>Offshoring and outsourcing</td>
<td>8</td>
</tr>
<tr>
<td>Tourism</td>
<td>9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>10</td>
</tr>
<tr>
<td>Construction</td>
<td>10</td>
</tr>
<tr>
<td>Mining</td>
<td>11</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>11</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12</td>
</tr>
<tr>
<td>Information and Communications</td>
<td>12</td>
</tr>
<tr>
<td>Technology (ICT)</td>
<td></td>
</tr>
<tr>
<td><strong>How to operate in the Philippines</strong></td>
<td>13</td>
</tr>
<tr>
<td>General policy on investments</td>
<td>13</td>
</tr>
<tr>
<td>Omnibus Investments Code of 1987</td>
<td>13</td>
</tr>
<tr>
<td>2012 Investment Priorities Plan (IPP)</td>
<td>14</td>
</tr>
<tr>
<td>Foreign Investments Act of 1991</td>
<td>18</td>
</tr>
<tr>
<td>Special Economic Zone Act of 1995</td>
<td>18</td>
</tr>
<tr>
<td>Bases Conversion and Development Act of 1992</td>
<td>23</td>
</tr>
<tr>
<td>An Act Providing for the Terms, Conditions, and Licensing Requirements of RHQs, ROHQs, and RWs</td>
<td>24</td>
</tr>
<tr>
<td>Investors’ Lease Act</td>
<td>25</td>
</tr>
<tr>
<td>Export Development Act of 1994</td>
<td>26</td>
</tr>
<tr>
<td>Amended Build-Operate-Transfer Law</td>
<td>26</td>
</tr>
<tr>
<td>Registration with government offices</td>
<td>27</td>
</tr>
<tr>
<td>Securities and Exchange Commission</td>
<td>27</td>
</tr>
<tr>
<td>Department of Trade and Industry</td>
<td>27</td>
</tr>
<tr>
<td>Bureau of Internal Revenue</td>
<td>28</td>
</tr>
<tr>
<td>Local Government</td>
<td>28</td>
</tr>
<tr>
<td>Taxation</td>
<td>28</td>
</tr>
<tr>
<td>Income Taxation</td>
<td>28</td>
</tr>
<tr>
<td>Withholding Tax</td>
<td>32</td>
</tr>
<tr>
<td>Value-Added Tax</td>
<td>32</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>32</td>
</tr>
<tr>
<td>Percentage Tax</td>
<td>33</td>
</tr>
<tr>
<td>Stock Transaction Tax</td>
<td>33</td>
</tr>
<tr>
<td>Initial Public Offering Tax</td>
<td>33</td>
</tr>
<tr>
<td>Documentary Stamp Tax</td>
<td>33</td>
</tr>
<tr>
<td>Customs Duty</td>
<td>34</td>
</tr>
<tr>
<td>Local Taxes</td>
<td>34</td>
</tr>
<tr>
<td>Section</td>
<td>Page</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Labor Requirements</td>
<td>35</td>
</tr>
<tr>
<td>Hours of Work</td>
<td>35</td>
</tr>
<tr>
<td>Work Day</td>
<td>35</td>
</tr>
<tr>
<td>Overtime Remuneration</td>
<td>35</td>
</tr>
<tr>
<td>Night Shift Differential Pay</td>
<td>35</td>
</tr>
<tr>
<td>Service Incentive Leave Pay</td>
<td>35</td>
</tr>
<tr>
<td>Meal and Rest Periods</td>
<td>36</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>36</td>
</tr>
<tr>
<td>Employees Compensation Program</td>
<td>36</td>
</tr>
<tr>
<td>National Health insurance</td>
<td>37</td>
</tr>
<tr>
<td>Emergency, Medical, and Dental Services</td>
<td>37</td>
</tr>
<tr>
<td>Woman and Child Labor</td>
<td>37</td>
</tr>
<tr>
<td>Paternity Leave</td>
<td>38</td>
</tr>
<tr>
<td>Termination of Employment</td>
<td>38</td>
</tr>
<tr>
<td>Unions</td>
<td>38</td>
</tr>
<tr>
<td>Financial and Monetary Policies</td>
<td>39</td>
</tr>
<tr>
<td>Other Business Regulations</td>
<td>39</td>
</tr>
<tr>
<td>Other Immigration Policies</td>
<td>40</td>
</tr>
<tr>
<td>Philippine Environmental Laws</td>
<td>41</td>
</tr>
<tr>
<td>Philippine Laws on Intellectual Properties</td>
<td>42</td>
</tr>
<tr>
<td>The Philippines</td>
<td>43</td>
</tr>
<tr>
<td>General information</td>
<td>43</td>
</tr>
<tr>
<td>Philippine Demographics</td>
<td>44</td>
</tr>
<tr>
<td>Philippine Economy</td>
<td>47</td>
</tr>
<tr>
<td>SGV &amp; Co.</td>
<td>54</td>
</tr>
<tr>
<td>Our Services</td>
<td>55</td>
</tr>
<tr>
<td>SGV &amp; Co. Partners &amp; Principals</td>
<td>56</td>
</tr>
<tr>
<td>SGV &amp; Co. Offices</td>
<td>57</td>
</tr>
</tbody>
</table>
Why you should invest in the Philippines

A string of coral-fringed islands on a vast expanse of the Pacific, the Philippines is undoubtedly a place of natural wonders. Teeming with natural resources and boasting of staggering landscapes, the country does not disappoint those who go the extra mile to reach it. Indeed, nothing compares to the abundance of diverse natural resources offered by the Philippines.

However, it is the Filipino that makes the country truly wonderful. Even when faced with adversity, Filipinos are the most ebullient and easygoing people anywhere and are noted for their courtesy and hospitality. Highly competent, multi-skilled and trainable, the Filipino worker can surpass any other in dedication and hard work.

The Philippines at its Finest

The 2012 IMD World Competitiveness Yearbook, a report produced annually by the Institute for Management and Development in Switzerland, presents the competitiveness rankings of 59 economies, including regional economies. In this year’s expanded list, the Philippines ranks highly in labor market (#1), fiscal policy (#11) and prices (#17).

With growth at 6.6% in 2012, following a 3.9% growth in 2011, the Philippine economy is one of the fastest growing economies in East Asia, according to the World Bank. On March 27, 2013, Fitch Ratings upgraded the Philippines’ credit rating to BBB-, giving the country its first ever investment grade.

The country is blessed with an educated, multi-cultural, bilingual and skilled labor force. The Philippines ranks third among business process outsourcing (BPO) destinations in terms of annual tertiary graduates, as well as graduates in finance and accounting or business and information technology (IT), according to the Commission on Higher Education. Filipinos’ fast learning curves, strong customer service and loyalty are also reasons why many companies outsource to the country.

### Fast facts

<table>
<thead>
<tr>
<th>How the Philippines ranks</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>Labor Market</td>
</tr>
<tr>
<td>#11</td>
<td>Fiscal Policy</td>
</tr>
<tr>
<td>#17</td>
<td>Prices</td>
</tr>
</tbody>
</table>

Source: IMD World Competitiveness Yearbook 2012
In addition to its human resources, the Philippines also has an expatriate-friendly environment, numerous developed cities and a strong telecommunications network. Lower labor costs and support from both the public and private sectors also make the country desirable for outsourcing.

**Technology and Innovation Stronghold**

According to the United Nations Conference on Trade and Development (UNCTAD), it is important for developing countries to lay good foundations for building their capacity to acquire and create knowledge and technology in order to take advantage of the opportunities offered by globalization, and, at the same time, to address emerging global challenges.

With global offshore services steadily growing over the past decade, Filipinos’ high level of proficiency in English and familiarity with American culture gives the country a unique edge among international service providers. The Philippine Information and Communications Technology (ICT) service sector has grown with regard to contact/call centers, business processing, animation, medical and legal transcription, engineering software and design. The global demand for information technology (IT), BPO and global in-house center (GIC) services are expected to more than double to approximately US$270 billion by 2016. Companies that provide such services in the Philippines can grow to US$25 billion in revenue, employ more than 1.3 million Filipinos directly and contribute to 10% of the country’s gross domestic product (GDP).

The country offers much by way of technology skills. The Philippine Economic Zone Authority (PEZA) reports that Filipino workers are considered the new breed of world-class service professionals and are referred to as global knowledge workers because of their intelligence and ability to compete at high levels among the best in the world.

Capitalizing on the ICT services sector to bring in growth to

<table>
<thead>
<tr>
<th>Average Flying Time from Manila to Selected Foreign Cities: (in hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
</tr>
<tr>
<td>Taipei</td>
</tr>
<tr>
<td>Shenzhen</td>
</tr>
<tr>
<td>Singapore</td>
</tr>
<tr>
<td>Shanghai</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
</tr>
<tr>
<td>Jakarta</td>
</tr>
<tr>
<td>Seoul</td>
</tr>
<tr>
<td>Tokyo</td>
</tr>
<tr>
<td>Guangzhou</td>
</tr>
<tr>
<td>Macau</td>
</tr>
<tr>
<td>Bangkok</td>
</tr>
<tr>
<td>Beijing</td>
</tr>
<tr>
<td>Brisbane</td>
</tr>
<tr>
<td>Vientiane</td>
</tr>
<tr>
<td>Yangon</td>
</tr>
<tr>
<td>Sydney</td>
</tr>
<tr>
<td>Melbourne</td>
</tr>
<tr>
<td>Auckland</td>
</tr>
<tr>
<td>Wellington</td>
</tr>
</tbody>
</table>

*As of December 2012
Source: www.travelmath.com*
the economy, the Philippine government developed the Philippines Cyberservices Corridor (PCC). Stretching 600 miles from Baguio City in Northern Luzon to Zamboanga in Mindanao, the PCC houses call centers and BPO companies, which are being served by a high-bandwidth fiber backbone and digital network. As of 31 October 2012, the PEZA reports 176 operating IT Parks or Centers and 65 more being developed. These zones serve as a one-stop-shop for e-services investors who may want to invest in the Philippines.

Steadfast in Tough Times

The Philippine economy was ranked by the IMD as 43rd out of 59 in terms of Competitiveness. Achieving the right combination of fiscal and monetary policies has significantly helped mitigate the adverse impact of the recent succession of global economic crises on the Philippine economy.

In a study conducted by eStandardsForum of New York, the Philippines fared very well in its compliance with 12 key standards for a sound financial system. In the study, which uses only information that is public and authoritative, the country ranked 26th out of 81. Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), Insurance Commission policy settings and their enforcement, control of public corporations, accounting/updating systems and government effectivity were all seen to be quite good.

The World Investment Prospects Report Survey 2010-2012 reports that transnational corporations will give more priority to East, South and Southeast Asia in their future investment programs. Strong prospects for market growth and, to a lesser extent, cheap labor are among these regions’ major attractions. Accessibility to natural resources is another major location asset.

This works for the country, which boasts of friendly business policies and incentives for investors, economical yet competitive labor force and access to abundant natural resources. According to the National Competitiveness Council, the Philippines is ranked 91st out of 127 in the annual Forbes list of the Best Countries for Business. The country’s good trade balance and potentially big market is attractive to investors.

According to the National Competitiveness Council, The Organization for Economic Development and Cooperation (OEDC) finds the Philippines among the top in corporate governance in Asia. This is based on an annual evaluation of corporate governance practices in several countries worldwide.
Prime Location

Strategically located in the fastest growing region and flanked by two great trade routes – the Pacific Ocean and the South China Sea – the Philippines is an ideal base for business. The country’s location is a critical entry point to over 500 million people in the ASEAN Market and a natural gateway to the East-Asian economies. The country is placed at the crossroads of international shipping and airlines.

Taking advantage of the country’s prime location, the government, with the support of the private sector, is continuously promoting and developing Subic and Clark as major international service and logistics centers. The government is implementing an open skies cargo policy in Clark, coordinating with logistics operators like UPS and Asia Overnight, expanding cargo-handling facilities and upgrading passenger and terminal facilities. The year 2008 marks the Subic port expansion.

The 167-hectare Global Gateway Logistics City (GGLC), a prime...
property adjacent to the Diosdado Macapagal International Airport in Clark will soon be completed. The project will be the first fully integrated master-planned center for airport and aviation-oriented operations and businesses in the Philippines.

Living Made Easy

The Philippines makes living convenient for expatriates. The cost of living is very affordable. Expatriates are treated to the best cuisine, housing that meets western standards and a wide array of recreation at very reasonable rates. The comforts offered by the country and the convenience by which these are acquired enable foreigners to consider turning their half-way houses into homes in the Philippines.

Expatriate living in the Philippines is made more desirable by the warmth and hospitality extended by the Filipinos. English is spoken competently everywhere in the country and this facilitates communication between foreigners and locals.

Schools

English is the medium of instruction for public and private schools in the Philippines. The Philippines implements the Enhanced K to 12 Basic Education Program (K-12 Program), which means Kindergarten and the 12 years of elementary and secondary education, in order to bring the Philippines’ educational curriculum at par with other countries. However, the country also has a number of international schools that follow a foreign curriculum. The following are international schools located in Manila. There are also international schools located in other major cities outside Manila, such as in Cebu and Davao.

Beacon School
(www.beaconschool.ph)
Beacon School is a coeducational K-8 school, with a curriculum based on the International Baccalaureate (IB) framework accepting students from 2.5 to 13 years old. It is the first educational institution in the Philippines to receive full authorization at every level of its academic programs by the International Baccalaureate Organization (IBO) in Switzerland.

Brent International School
(www.brent.edu.ph)
Brent is an International, co-educational day school associated with the Episcopal Church in the Philippines. The school has campuses in Manila, Subic, Boracay, and other places in Luzon. The school accepts students from Nursery to Grade 12, and currently has a mix of students from over 46 countries. The school is accredited as a college preparatory school by the Western Association of Schools and Colleges (WASC) and by the Philippine Accrediting Association of Schools. It is also recognized by the Philippine Department of Education (DepEd).

The British School Manila
(www.britishschoolmanila.org)
The British School Manila has over 760 students representing 46 nationalities. It follows the English National Curriculum from Nursery to Year 13. Children are prepared for National Curriculum Tests (NCTs) at age seven, 11, and 14, GCSE at 16 and International Baccalaureate at
18. In all comparative assessments, the school’s students perform well above national UK averages.

**Esteban International School**
Esteban International was founded as a Kindergarten in 1964, and now offers education from Pre-Primary to Grade 8. It is a member of the European Council of International Schools (ECIS) and is DepEd accredited. Esteban International is located in Makati.

**The International School Manila**
(www.ismanila.com)
IS Manila offers an American-based curriculum from early primary to high school, with class sizes ranging from 15 to 24. IS Manila was the first school in the Philippines to receive accreditation by the WASC and DepEd.

**Eurocampus Manila**
(www.eis-manila.org)
Eurocampus Manila is composed of two schools, one following a French curriculum, and the other following a German curriculum. Teachers and staff of each school come from their homelands. Eurocampus offers many extra-curricular activities which allow interaction between the students of the two schools.

**Faith Academy**
(www.faith.edu.ph)
Faith Academy is a WASC accredited school located in Antipolo, with a branch campus in Davao. It is an international Christian school primarily for the children of expatriate Christian workers in the Philippines and throughout Asia.

**Reedley International School**
(www.reedleyschool.com)
Reedley International is a college preparatory school that adapts the Singaporean approach in the teaching-learning of Mathematics and Science and an American curriculum is adopted in the implementation of its humanities program. It offers classes for Grades 1 to 12 and follows the American Grading System.

**Southville**
(www.southville.edu.ph)
Southville International School and Colleges (SISC) is a nonsectarian school that is WASC-accredited and recognized by DepEd and the Commission on Higher Education (CHED). It offers classes for preschool until college. Southville also has a night school, offering evening courses for working professionals.

**Graduate School**

**Asian Institute of Management**
(www.aim.edu)
AIM offers postgraduate degrees in Business Administration, Management Development Management and Entrepreneurship, as well as certificate courses. The institute attracts professionals from across Asia. AIM professors are doctorate and master’s degree holders from universities in Asia, the United States and Europe, and are experienced managers who have worked in business, government and nongovernment organizations around Asia. The institute pushes Asia-relevant content and context, and focuses on how to operate effectively in Asia. It also has active partnerships with the World Bank and the Asian Development Bank. AIM also has active research, consulting, and student mentoring arrangements with more than 100 corporations.
Rest and Recreation

Entertainment and recreation in the Philippines are unrivaled. Touted as the entertainment capital of Asia, the country offers numerous watering holes, bars, bistros and restaurants that cater to even the most eclectic of tastes from dining to music. The country’s capital, Manila, has anarchic nightlife and daytime commerce, providing activities to keep one occupied from day to night.

Those who long to unwind and escape from the hustle and bustle of the daily grind may relax in spas that have sprouted all over Manila. Tourists and locals can indulge in a few hours of pampering from inexpensive day spas to high-end luxurious ones. Long weekends can be spent basking in the sunshine in beaches just a few hours’ drive from Manila. One can drive up to Tagaytay to catch a glimpse of the world’s smallest volcano, Taal. Those who want a piece of the ultimate beach experience can visit Boracay in Aklan, El Nido in Palawan or the idyllic Pagudpud in Ilocos Norte. One can also wonder at the natural beauty of the Puerto Princesa Underground River in Palawan which was officially inaugurated as one of the New Seven Wonders of Nature in 2012.

The Philippines has something for thrillseekers as well. Visit Donsol, a small seaside town in Sorsogon, and take a dip with whale sharks. Extreme water sports are slowly gaining popularity in the country such as white water rafting and scuba diving. Surfing enthusiasts frequent prime surf spots in La Union and Siargao. One can go trekking in the immense rice terraces around Banaue and Bontoc in North Luzon’s Cordillera Mountains.

Top Philippine Tourist Spots

Beaches
Boracay (Aklan)
Pagudpud (Ilocos Norte)
Mactan Island (Cebu)
Panglao (Bohol)
Dakak (Zamboanga del Norte)
Honda Bay (Palawan)
El Nido (Palawan)
Pearl Farm (Davao)
Siargao (Surigao del Norte)

Heritage Tours
Puerto Princesa Underground River (Palawan)
Tubbataha Reef Marine Park (Palawan)
Ifugao Rice Terraces (Banaue)
Vigan Heritage Village (Ilocos Sur)
Philippine Baroque Churches (Manila, Bulacan, Ilocos Norte, Iloilo)
The Best of Pinoy Creativity

The Philippines is now known as the global animation haven. Industry estimates say about 90% of American television cartoons are now produced in Asia. Of that, more and more are bringing their business to the Philippines.

Perhaps among all Filipino symbols, it is the bahay-kubo and the parol that has received much international recognition. The bahay-kubo and a miniature volcano, Mt. Wanahakalugi, which looks suspiciously like Mt. Mayon, provide extra thrill to watching the Disney/Pixar animated film Finding Nemo. Providing that touch of Pinoy is Nelson Bohol from Catbalogan. Veteran award-winning animator Armand Serrano is responsible for stringing parols in the little Hawaiian girl Lilo’s window in Disney’s Lilo and Stitch. He is likewise responsible for bringing the lovable alien Pleakley to life in the same movie. Not many people know that the Trojan horse in Helen of Troy was done by a Filipino, Stargate Digital’s Anthony Ocampo who won a Visual Effects Society Award for his work. By the end of 2008, the first two full-length Filipino-made animated films, Dayo and Urduja, were released, opening more doors for the country’s animation industry.

Filipinos are entertainers at heart and their sense of humor make them a natural at animation. The Filipino’s love for storytelling and cracking jokes despite life’s adversities are traits that are valuable in this line of work. Filipino animators are recognized not only for their creativity and artistic skills as an important factor in animation, but also for the consistent quality and speed by which they can deliver their output. Filipinos have the innate ability to comprehend concepts and storylines better than most.

Offshoring and outsourcing

The Philippines is among the world’s top outsourcing destinations, thanks in large part to low business costs and a large pool of university-educated, English-speaking, highly adaptable workers. The Philippine offshoring and outsourcing sector has been growing rapidly at 28% a year from 2007 to 2011, with 638,000 direct employees and 1.6 million indirect employees providing services to Fortune 1000 firms in North America, Asia and the European Union. Clients are involved in banking and financial services, manufacturing, distribution, retail, healthcare, telecommunications, travel, energy and media, according to a survey by Everest Group and Outsource2Philippines. The country is now ranked first in voice-based BPO services and second in non-voice, complex services. In addition to Metro Manila, Cebu and Bacolod in Visayas, Clark and Sta. Rosa in
Luzon as well as Davao in Mindanao are strengthening their foothold in the BPO industry as major construction projects continue and large contact centers put up operations in the two cities.

The country has received increasing recognition for the offshoring and outsourcing sector. It was ranked in the “Top 10 Global Services Location” by global management consultant AT Kearney in 2007, 2009 and 2011. The Philippines was also “Best Offshoring Destination of the Year” in 2007, 2009 and 2010 according to National Outsourcing Association, UK. In 2012, a Tholons study has ranked Metro Manila among the “Top 10 Emerged Outsourcing Cities” while Cebu, Davao, Sta. Rosa and Iloilo are in the “Top 100 Outsourcing Destinations.”

To meet the accelerated growth target of US$25 billion in revenues in the IT and BPO industry and address talent supply capability requirements of different industry sectors, several talent development programs have been initiated. The Business Processing Association of the Philippines (BPAP) provides a Global Competitive Assessment Tool (GCAT) to assess BPO-related skills and works with the Technical Education and Skills Development Authority (TESDA) on Industry Training for Work Scholarship Program (I-TWSP). The Commission on Higher Education has allocated PhP125 million to state universities and colleges for the implementation of IT-BPO programs and offers a 21-unit minor degree course for students aspiring to join the industry.

**Tourism**

Tourism is another industry weathering the economic storm. The Philippine Department of Tourism has reported a 9.18% increase in tourist arrivals from January to October 2012 compared to the same period in 2011. Camarines Sur, Cebu and Davao are the country’s top tourist drawers. Local airlines are offering competitive air ticket prices and have increased their flight frequency to key tourist destinations. Newly opened hotels and resorts increased room supply and created jobs.

The Philippines is highly accessible, providing different air and sea ports that serve as gateways to key Asian cities, most of which are less than four hours away.
Why you should invest in the Philippines

There are 10 international airports in the country. The Ninoy Aquino International Airport is the main airport, which serves more than 30 international airlines with flights to Asia, the Middle East, Europe and North America. Two adjacent airports have daily domestic flights that link major cities in the Philippines.

The Mactan-Cebu International Airport in Cebu has regular flights from Australia, Brunei, Busan, Doha, Hong Kong, Japan, Malaysia, Seoul and Singapore. The Davao International Airport has regular flights from Indonesia and Singapore and seasonal flights from Macau.

The Diosdado Macapagal International Airport in Pampanga has regular flights from Hong Kong, Korea, Macau, Malaysia and Singapore. Subic International Airport, also in Pampanga, has regular flights from Korea and Macau, while Laoag International Airport in Ilocos Norte has regular flights from Macau. Kalibo International Airport in Aklan has regular flights from China, Korea and Taiwan. The other international airports in the country are the Puerto Princesa International Airport in Palawan, Zamboanga International Airport and General Santos International Airport, which are both in Mindanao.

By sea, major cruise ships and international container vessels call at the port of Manila. Interisland ships connect Manila to major ports in other provinces.

Manufacturing

The World Bank Office Manila reported in its quarterly economic update, released in December 2012, that manufacturing accounts for two-thirds of industrial output. It benefitted from a rebound in exports and grew by 5.7% in the third quarter of 2012.

The food manufacturing subsector, in particular, posted an above-average growth of 8.2%, with an increase in food exports such as pineapple, bananas, mangoes and coffee. Merchandise exports also grew 8% to US$27 billion.

Construction

Spurred by the government’s Comprehensive Integrated Infrastructure Program, wherein PhP2.0 trillion (or US$49 billion) priority infrastructure projects are supported by official development
assistance or the private sector, the construction sector is a top growth contributor. The sector grew by 24.8% in the third quarter of 2012, its fastest pace in nearly two years, and contributed 1.9 percentage points to GDP growth, according to the World Bank.

The demand for office space and residential buildings by the BPO industry and the low interest rate environment drive private construction. In 2013, market research firm BCI Asia anticipates that PhP1.18 trillion worth of projects will start, a 264% growth from 2012. Major residential constructions are located in NCR, Southern Luzon and Central Luzon, which host the majority of OFWs.

**Mining**

In the US Department of State’s Background Notes on the Philippines released in January 2012, the country has an untapped mineral wealth in gold, copper, nickel, chromite, manganese, silver and iron estimated at more than US$840 billion. It is the fifth mineral rich country in the world, third in gold reserves, fourth in copper and fifth in nickel according to the Philippine Department of Environment and Natural Resources.

As of the second quarter of 2012, the gross production value in mining has amounted to PhP51.2 billion, with 35 operating metallic mines and 258,000 people employed in mining and quarrying.

The Mining Act of 1995 or Republic Act No. 7942 allows the large-scale exploration, development and utilization of minerals in up to 81,000 hectares by 100% foreign-owned companies under Financial or Technical Assistance Agreements. Mining investments are expected to reach around US$13.5 billion by 2013.

**Renewable energy**

The Philippine Energy Plan 2005-2014 aims for 60% self-sufficiency by 2010 by increasing renewable energy-based capacity. The Philippines is already the world’s second largest producer of geothermal energy, with still untapped resource potential of 2,600 megawatts. There is an untapped potential of 76,600 megawatts for wind energy and 13,097 megawatts for hydropower.

The Philippines ranks third in developing countries with highest profit potential from biodiesel.
exports and is a large producer of coconut and sugarcane, two major sources of biofuels. As of September 2012, the country has a total bioethanol capacity of 69 million liters per year. The Bureau of Agricultural Research expects to develop a 15% bioethanol-gasoline blend by 2015 through the processing of sweet sorghum syrup.

**Agriculture**

The Philippines has about 10 million hectares of agricultural land and is a major exporter of banana, coconut, pineapple and fishery.

Department of Agriculture (DA) figures showed the sector grew by 1.93 percent from January to September 2012 with increases in the output of crops, livestock and poultry. Growth accelerated from 0.6% in the second quarter of 2012 to 4.1% in the third quarter.

The Philippines partnered with Korea in establishing Multi-industry Clusters (MIC), which are expected to generate employment in rural areas and promote food security. The project started with a Corn Processing Complex in Misamis Oriental and is expected to draw more investors.

**Information and communications technology (ICT)**

The Information and Communications Technology Office (ICTO) reports that the Philippine ICT sector can contribute around US$50 billion in annual direct revenues to the Philippine economy by 2016. Of the current total revenues in IT service activities, 70% is derived from clients abroad. Among the activities eligible for PEZA incentives are: IT-enabled services such as BPO, call centers, data encoding, transcribing and processing; software development and application; and content development for multimedia or internet purposes.

The ICTO implements a comprehensive program to continually develop the sector. The program involves accelerating the growth of the four other subsectors (computer hardware; software and application development; semiconductors and electronics; and telecommunications). It also aims to increase the size of the IT industry talent pool and promote the country’s creative process outsourcing sector.
How to operate in the Philippines

Investment Policy and Laws

General Policy on Investments

Investments are most welcome in the Philippines. In general, anyone, regardless of nationality, is welcome to invest in the country. For most economic activities, restriction on foreign investments is on the extent of ownership allowed for a particular activity.

Philippine laws and regulations guarantee the basic rights of all investors and enterprises, including the following:
- Freedom from expropriation without just compensation
- Right to remit profits, capital gains, and dividends within the guidelines of the BSP, the country’s monetary authority
- Right to repatriate the proceeds of the liquidation of investments
- Right to obtain foreign exchange to meet principal and interest payments on foreign obligations

There are a number of laws governing investments in the Philippines. Presently, there are moves to consolidate all the incentive laws into one law to rationalize the grant and administration of fiscal and nonfiscal incentives given by various incentive bodies.

The major investment laws are discussed as follows.

Omnibus Investments Code of 1987 or Executive Order (EO) No. 226, as amended by Republic Act (RA) No. 7918
Implemented by the Board of Investments (BOI), the Omnibus Investments Code of 1987 provides a comprehensive set of incentives for local and foreign enterprises engaged in activities considered by government as high priority for national development.

To qualify for BOI incentives, an enterprise must engage in an area of activity listed in the current Investment Priorities Plan (IPP).

If not listed in the IPP, an enterprise is also entitled to incentives if either of the following criteria is met:
- At least 50% of production is for export (for Filipino-owned enterprises)
- At least 70% of production is for export (for enterprises with more than 40% foreign equity)
2012 Investment Priorities Plan (IPP)

Part I. Priority Investment Areas

The coverage, description and entitlement to incentives of the following listed activities shall be defined and clarified in the General Policies and Specific Guidelines to be issued by the BOI.

The extent of entitlement to incentives shall be based on the project’s net value added, job generation, multiplier effect and measured capacity.

I. Preferred Activities

1. Agriculture/Agribusiness and Fishery. This covers commercial production and processing of agricultural, herbal and fishery products (including their by-products and wastes), agriculture- and fishery-related activities such as irrigation, post harvest, cold storage, blast freezing and the production of fertilizers and pesticides.

2. Creative Industries/ Knowledge-Based Services. This covers BPO activities, IT and IT-enabled services that involve original content.

3. Shipbuilding. This covers the construction and repair of ships, shipbreaking/ shiprecycling.

4. Mass Housing. This covers the development of low-cost mass housing and the manufacture of modular housing components, preferably using indigenous materials.

5. Iron and Steel. This covers basic iron and steel products, long steel products (billets and reinforcing steel bars), and flat hot-/cold-rolled products.

6. Energy. This covers the exploration, development and/or utilization of indigenous energy sources and other energy sources adopting environmentally-friendly technologies.

7. Infrastructure. This covers transport, water, logistics, waste management facilities, physical infrastructure (tollways, railways and telecommunication facilities), and PPP projects.

8. Research and Development (R&D). This covers R&D activities and the establishment of research/testing laboratories, Centers of Excellence (COE) and technical vocational education and training institutions.

9. Green Projects. This covers the manufacture/assembly of goods, and the establishment of energy efficiency-related facilities (such as district cooling systems). The utilization of which would significantly lead to either the efficient use of energy, natural resources or raw materials; minimize/prevent pollution; or reduce greenhouse gas emissions.
10. **Motor Vehicles.** This covers the manufacture/assembly of motor vehicles, including alternative fuel vehicles (AFVs) and electric vehicles (EVs) but excluding 2-stroke motorcycles, and manufacture of motor vehicles parts and components.

11. **Strategic Projects.** This covers projects that exhibit very high socio-economical returns that will significantly contribute to the country’s economic development.

[Note: Approval of projects shall be subject to concurrence of the Department of Finance (DOF) and the National Economic Development Authority (NEDA) and other appropriate government agencies.]

12. **Hospital/Medical Services.** This covers the establishment and operation of primary and secondary hospitals.

13. **Disaster Prevention, Mitigation and Recovery Projects.** This covers the following:
   - Projects that will prevent or mitigate adverse impacts of calamities and disasters (e.g., installation of flood control systems, installation of early warning systems for typhoons, earthquake occurrences, tsunami, volcanic eruptions, dikes and so on)
   - Projects to rehabilitate areas affected by calamities and disasters (e.g., rebuilding of roads and bridges after earthquakes/floodings, volcanic eruptions, oil spill clean-up and so on)
   - Training for disaster preparedness, mitigation or recovery/rehabilitation/reconstruction.

II. **Mandatory List**

This covers activities that require their inclusion in the IPP as provided for under existing laws.

- **Presidential Decree (PD) No. 705 - Revised Forestry Code of the Philippines** - This covers extensive plantation of forest land of tree crops (except fruit trees) for commercial and industrial purposes.
- **RA No. 7942 - Philippine Mining Act of 1995** - This covers the exploration and development of mineral resources, mining/quarrying and processing of metallic and non-metallic minerals.
- **RA No. 8047 - Book Publishing Industry Development Act** - This covers printing, reprinting, publication and content development of books or textbooks.
- **RA No. 8479 - Downstream Oil Industry Deregulation Act of 1998** - This covers refining, storage, distribution, and marketing of petroleum products.
- **RA No. 9003 - Ecological Solid Waste Management Act of 2001** - This covers the establishment of waste recycling facilities.
RA No. 9275 - Philippine Clean Water Act of 2004 - This covers the establishment of wastewater treatment facilities, and sewage collection integrated with treatment facilities and the adoption of water pollution control technology, cleaner production and waste minimization.

RA No. 7277 - Magna Carta for Persons with Disability - This covers the manufacture of technical aids and appliances for the use and/or rehabilitation of persons with disability, and the establishment of special schools, homes, residential communities or retirement villages solely to suit the needs and requirements of persons with disability.

RA No. 9513 - Renewable Energy Act of 2008 - This covers developers of renewable energy facilities, including hybrid systems, manufacturers, fabricators and suppliers of locally-produced renewable energy (RE) equipment and components.

RA No. 9593 - Tourism Act of 2009 - This covers tourism enterprises that are outside the tourism enterprise zones (TEZs) and are engaged in the following:
1. Tourist transport services whether for land, sea and air transport for tourist use;
2. Establishment and operation of:
   - Accommodation establishments such as but not limited to hotels, resorts, apartment hotels, tourist inns, motels, pension houses, private homes for homestay, ecolodges, condotels, serviced apartments, and bed and breakfast facilities;
   - Convention and exhibition facilities or “meetings, incentives, conventions and exhibition” (MICE) facilities;
   - Amusement parks;
   - Adventure and ecotourism facilities;
   - Sports facilities and recreational centers;
   - Theme parks;
   - Health and wellness facilities such as but not limited to spas, tertiary hospitals, and ambulatory clinics;
   - Agri-tourism farms and facilities; and
   - Tourism training centers and institutes.
3. Development of retirement villages.
4. Restoration/preservation and operation of historical shrines, landmarks and structures.

III. Export Activities

This covers the manufacture of export products, services, exports and activities in support of exporters.

IV. ARMM List

This covers priority activities that have been identified by the Regional BOI of the Autonomous Region of Muslim Mindanao (RBOI-ARMM) in accordance with EO No. 458. The RBOI-ARMM may also register and administer incentives
to activities in this IPP for projects locating in the ARMM.

A. Export Activities
   1. Export Trader and Service Exporters
   2. Support Activities for Exporters

B. Agriculture, Agri-business/ Aquaculture & Fishery

C. Basic Industries

D. Consumer Manufacturers

E. Infrastructure and Services

F. Industrial Service Facilities

G. Engineering Industries

H. Logistics

I. BIMP-EAGA Trade and Investment Enterprises

J. Tourism

K. Health and Education Services and Facilities

L. Halal Industries

Incentives Available to BOI-Registered Enterprises

Fiscal Incentives

1. Income tax holiday. From the start of commercial operations, newly registered pioneer projects are exempt from income taxes for six years, nonpioneer firms for four years, expansion or modernization projects for three years (for incremental sales revenue/volume), and new or expansion projects in less developed areas for six years.

   Newly registered pioneer and nonpioneer enterprises may avail of a bonus year in each of the following cases if:
   - Indigenous raw materials used are at least 50% of the total cost of raw materials for the preceding years
   - The ratio of total imported and domestic capital equipment to number of workers does not exceed US$10,000 to one worker.
   - The net foreign exchange savings or earnings amount to at least US$500,000 annually during the first three years of operation.

2. Additional deduction of labor expenses from taxable income

3. Tax credit for taxes and duties on raw materials used in the manufacture, processing, or production of export products

4. Additional deduction of necessary and major infrastructure expenses from taxable income

5. Exemption from wharfage dues and any export tax, duty, impost, and fee

6. Exemption from local business taxes for four or six years from date of BOI registration.

Nonfiscal Incentives

1. Simplification of customs procedures. Customs procedures are simplified for the importation of equipment, spare parts, raw materials, and supplies, and the export of products of BOI-registered firms.

2. Unrestricted use of consigned equipment. BOI-registered enterprises’ use of consigned equipment is unrestricted provided a re-export bond is posted.
3. Access to bonded manufacturing and warehouse system.

4. Employment of foreign nationals. Foreign nationals may be employed in supervisory, technical, or advisory positions for five years from a registered project’s registration, extendible for limited periods to be determined by the BOI. The positions of president, general manager, and treasurer, or their equivalents, of foreign-owned registered firms may be retained by foreign nationals for a longer period.

Qualifications for BOI-Registered Enterprises

1. If a natural person, he or she must be a Philippine citizen.

2. If a partnership or any other association, it must be organized under Philippine laws and at least 60% of its capital is owned and controlled by Philippine citizens.

3. If a corporation, it must be organized under Philippine laws and at least 60% of the capital stock outstanding and entitled to vote is owned and held by Philippine nationals, and at least 60% of the members of the Board of Directors are Philippine citizens. If the corporation does not possess the required degree of ownership by Philippine nationals, the following circumstances must be satisfactorily established:
   • It proposes to engage in a pioneer project which cannot be readily and adequately filled by Philippine nationals as determined by BOI, or the applicant will export at least 70% of its total production.
   • It obligates itself to attain the status of a Philippine national within 30 years from date of registration, but a registered enterprise which exports 100% of its total production need not comply with this requirement.
   • The pioneer area it will engage in is not within the activities reserved by the Constitution or other laws to Philippine citizens or corporations owned and controlled by citizens.

Foreign Investments Act (FIA) of 1991 (or Republic Act No. 7042 as amended by RA No. 8179)

The Foreign Investments Act (FIA) of 1991 liberalized the entry of foreign investments into the Philippines. Its passage marked the end of decades of protectionism for local business.

Under the FIA, foreign companies are generally allowed to conduct business in the Philippines subject to restrictions spelled out in the Foreign Investments Negative List (FINL). The FINL is a shortlist of areas of economic activities where foreign investments are restricted or limited (see Table I on page 14 for the current FINL). It has two components:

List A contains areas of activities reserved to Philippine nationals by mandate of the Constitution and other specific laws.

List B contains the areas of activity and enterprises where foreign ownership is limited pursuant to law. Among these are defense- or law enforcement-related activities and those with implications on public health and...
morals. This list includes small- and medium-sized domestic market enterprises with paid-in equity capital less than the equivalent of US$200,000, unless they involve advanced technology as certified by the Department of Science and Technology or they employ at least 50 direct employees, in which case a minimum paid-up capital of US$100,000 is allowed.

**Special Economic Zone Act of 1995 (RA No. 7916, as amended by RA No. 8748)**

This law was passed in 1995 to encourage economic growth through the development of special economic zones called Ecozones. PEZA implements this law and also grants incentives to qualified enterprises that locate in the Ecozone.

Ecozones are areas earmarked by the government for development into balanced agricultural, industrial, commercial, and tourist/recreational regions.

**Industrial Estates (IEs)** are tracts of land developed for the use of industries. They have basic infrastructure, such as roads, water and sewage systems, pre-built factory buildings, and residential housing.

**Export Processing Zones (EPZs)** are special IEs whose locator companies are mainly export-oriented. EPZ incentives include tax- and duty-free importation of capital equipment, raw materials, and spare parts.

**Free Trade Zones** are areas in nearby ports of entry, such as seaports and airports. Imported goods may be unloaded, repacked, sorted, and manipulated without being subjected to import duties. However, if these goods are moved into a non-free trade zone, they will be subjected to customs duties.

**Tourism Ecozone** refers to a tourism development zone/tourism estate declared as a special economic zone suitable for development into an integrated resort complex with prescribed carrying capacities of tourist facilities and activities, such as, but not limited to, sports and recreation centers, accommodations, convention and cultural facilities, food and beverage outlets, commercial establishments and other special interest and attraction activities/establishments, and provided with the necessary infrastructure.

**IT Parks/IT Buildings** are special economic zones for IT projects and services. An IT Park is an area or an IT building, the whole or part of which has been developed into a complex capable of providing infrastructures and other support facilities required by IT Enterprises, including amenities required by professionals and workers involved in IT Enterprises.

Each Ecozone is to be developed as an independent community with minimum government interference. It shall administer its own economic, financial, industrial, and tourism development without help from the national government. It shall also provide adequate facilities to establish linkages with surrounding communities and other entities within the country.
### Seventh Regular Foreign Investments Negative List

Due to limitations set by the Constitution and other specific laws, the following industries are fully or partly nationalized under the **Seventh Foreign Investments Negative List**:

**LIST A: Foreign Ownership is Limited by Mandate of the Constitution and Specific Laws**

<table>
<thead>
<tr>
<th>No Foreign Equity</th>
<th>Up to 20% Foreign Equity</th>
<th>Up to 25% Foreign Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mass media except recording (Art. XVI, Sec. 11 of the Constitution, Presidential Memorandum dated May 4, 1994)</td>
<td>1. Private radio communications network (RA No. 3846)</td>
<td>1. Private recruitment, whether for local or overseas employment (Art. 27 of PD No. 442)</td>
</tr>
<tr>
<td>2. Practice of all professions</td>
<td>2. Contracts for the construction and repair of locally-funded public works (Sec. 1 of Commonwealth Act No. 541, Letter of Instruction No. 630) except:</td>
<td>2. Contracts for the construction and repair of locally-funded public works (Sec. 1 of Commonwealth Act No. 541, Letter of Instruction No. 630) except:</td>
</tr>
<tr>
<td>a. Engineering</td>
<td>a. Infrastructure/development projects covered in RA No. 7718</td>
<td>a. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
</tr>
<tr>
<td>b. Medicine and allied professions</td>
<td>b. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>c. Accountancy</td>
<td>c. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>d. Architecture</td>
<td>d. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>e. Criminology</td>
<td>e. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>f. Chemistry</td>
<td>f. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>g. Customs brokerage</td>
<td>g. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>h. Environmental planning</td>
<td>h. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>i. Forestry</td>
<td>i. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>j. Geology</td>
<td>j. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>k. Interior design</td>
<td>k. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>l. Landscape architecture</td>
<td>l. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>m. Law</td>
<td>m. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>n. Librarianship</td>
<td>n. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>o. Marine deck officers</td>
<td>o. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>p. Marine engine officers</td>
<td>p. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>q. Master plumbing</td>
<td>q. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>r. Sugar technology</td>
<td>r. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>s. Social work</td>
<td>s. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>t. Teaching</td>
<td>t. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>u. Agriculture</td>
<td>u. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
<tr>
<td>v. Fisheries</td>
<td>v. Projects which are foreign-funded or -assisted and required to undergo international competitive bidding (Sec. 2(a) of RA No. 7718)</td>
<td></td>
</tr>
</tbody>
</table>

3. Retail trade enterprises with paid-up capital of less than US$2,500,000 (Sec. 5 of RA No. 8762)

4. Cooperatives (Ch. III, Art. 26 of RA No. 6938)

5. Private security agencies (Sec. 4 of RA No. 5487)

6. Small-scale mining (Sec. 3 of RA No. 7076)

7. Utilization of marine resources in archipelagic waters, territorial sea, and exclusive economic zone as well as small-scale utilization of natural resources in rivers, lakes, bays, and lagoons (Art. XII, Sec. 2 of the Constitution)

8. Ownership, operation, and management of cockpits (Sec. 5 of PD No. 449)

9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons (Art. II, Sec. 8 of the Constitution)

10. Manufacture, repair, stockpiling, and/or distribution of biological, chemical and radiological weapons, and anti-personnel mines (various treaties to which the Philippines is a signatory and conventions supported by the Philippines)

11. Manufacture of firecrackers and other pyrotechnic devices (Sec. 5 of RA No. 7183)
### LIST B: Foreign Ownership is Limited for Reasons of Security, Defense, Risk to Health and Morals and Protection of Small-and-Medium Scale Enterprises

<table>
<thead>
<tr>
<th>Up to 30% Foreign Equity</th>
<th>Up to 40% Foreign Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Advertising (Art. XVI, Sec. 11 of the Constitution)</td>
<td>1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) clearance</td>
</tr>
<tr>
<td>2. Manufacture, repair, storage, and/or distribution of products requiring Department of National Defense clearance</td>
<td>2. Manufacture, repair, storage, and/or distribution of products requiring Department of National Defense clearance</td>
</tr>
<tr>
<td>3. Manufacture and distribution of dangerous drugs (RA No. 7042 as amended by RA No. 8179)</td>
<td>3. Manufacture and distribution of dangerous drugs (RA No. 7042 as amended by RA No. 8179)</td>
</tr>
<tr>
<td>4. Sauna and steam bathhouse, massage clinics, and other like activities regulated by law because of risks posed to public health and morals</td>
<td>4. Sauna and steam bathhouse, massage clinics, and other like activities regulated by law because of risks posed to public health and morals</td>
</tr>
<tr>
<td>5. All forms of gambling, e.g., race track operation</td>
<td>5. All forms of gambling, e.g., race track operation</td>
</tr>
<tr>
<td>6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US$200,000</td>
<td>6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US$100,000</td>
</tr>
</tbody>
</table>

### Up to 60% Foreign Equity
1. Financing companies regulated by the SEC (Sec. 6 of RA No. 5980 as amended by RA No. 8556) |
2. Investment houses regulated by the SEC (Sec. 5 of PD No. 129 as amended by RA No. 8366) |
3. Contracts for the supply of materials, goods and commodities to a government-owned or controlled corporation, company, agency, or municipal corporation (Sec. 1 of RA No. 5183) |
4. Project proponent and facility operator of a BOT Project requiring a public utilities franchise (Art. XII, Sec. 11 of the Constitution; Sec. 2(a) of RA No. 7718) |
5. Operation of deep sea commercial fishing vessels (Sec. 27 of RA No. 8550) |
6. Adjustment companies (Sec. 323 of PD No. 612 as amended by PD No. 1814) |
7. Ownership of condominium units where the common areas in the condominium project are co-owned by the owners of the separate units or owned by a corporation (Sec. 5 of RA No. 4726) |
8. Ownership/establishment and administration of educational institutions (Art. XIV, Sec. 4 of the Constitution) |
9. Culture, production, milling, processing, trading, except retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the by-products thereof (Sec. 5 of PD No. 194; Sec. 15 of RA No. 8762) |
10. Contracts for the supply of materials, goods and commodities to a government-owned or controlled corporation, company, agency, or municipal corporation (Sec. 1 of RA No. 5183) |

### Up to 40% Foreign Equity
1. Manufacture, repair, storage,
Enterprises Qualified to Locate in the Ecozone

The following describe each type of Ecozone enterprise.

- **Export Enterprise** - manufactures, assembles, or processes products which are 100% exported, unless a lower percentage is approved by PEZA.

- **Free Trade Zone Enterprise** - imports and markets tax- and duty-free goods within the free trade area in the Ecozone. Goods brought outside the free trade area will be subject to customs and tariff duties.

- **Service Enterprise** - is engaged in any one or a combination of the following activities: customs brokerage, trucking/forwarding, janitorial, security, insurance and/or banking, consulting, or any such service approved by PEZA.

- **Domestic Market Enterprise** - manufacturer, assembler, or processor of goods which continually fails to export at least 50% of its total output for a period of three years if majority-owned by Filipinos and at least 70% if majority-owned by foreign nationals.

- **Pioneer Enterprise** - falls under any of the following conditions:
  - Manufactures, processes, or produces goods not produced in a commercial scale in the country
  - Uses a design, formula, scheme, method, or process which is new and untried in the Philippines
  - Produces nonconventional fuels or manufactures equipment that utilizes nonconventional sources of energy
  - Develops areas for agri-export processing development
  - Given such a status under the annual IPP approved by the President.

- **Utilities Enterprise** - contracted to provide light and power, water supply and distribution, communications, and transportation systems in the Ecozone.

- **Facilities Enterprise** - contracted to build and maintain necessary infrastructure such as warehouses, buildings, road networks, ports, sewerage and drainage systems, and other facilities considered as necessary by PEZA in the development and operations of the Ecozone.

- **Tourism Enterprise** - operates sports and recreation centers, accommodations, convention and cultural facilities, and other special interest and attraction activities/establishments with foreign tourists as primary clientele.

- **Ecozone Developer/Operator** - develops, operates, and maintains the Ecozone, all component sectors (i.e., IEs, EPZs, Free Trade Zones, and Tourist Ecozones) and all related infrastructure (roads, light and power systems, drainage facilities, etc.).

- **IT Enterprise** - provides or operates IT services. IT is the collective term for the various technologies involved in processing and transmitting information, which include computing, multimedia, telecommunications, microelectronics, and their interdependences. Also called “informatics” or “telematics,” the term now more often refers
to the convergence of various information-based, broadcast, and mass-media communication technologies.

**Incentives Available to Ecozone Enterprises**
The incentives that are available to Ecozone enterprises, depending on the nature of their activities, are:

- Tax- and duty-free importation of capital equipment, raw materials, spare parts, supplies, breeding stocks, and genetic materials
- ITH of four years for nonpioneer projects or six years for pioneer projects
- A special tax rate of 5% of modified gross income in lieu of all national and local taxes after the ITH
- Tax credit for import substitution
- Exemption from wharfage dues, export tax, and import fees
- Tax credit on domestic capital equipment, breeding stocks, and genetic materials
- Additional deduction for incremental labor expenses and training expenses
- Unrestricted use of consigned equipment
- Permanent resident status for foreign investors and immediate family
- Employment of foreign nationals
- Remittance of earnings without prior approval from the BSP
- Exemption from local business taxes.
- Exemption from Branch Profit Remittance Tax (BPRT) in the case of Philippine branches under 5% modified gross income.

**Bases Conversion and Development Act of 1992 (RA No. 7227)**
Passed in 1992, this law created the Bases Conversion Development Authority, the Subic Bay Metropolitan Authority (SBMA), and the Subic Special Economic and Freeport Zone (SSEFZ) consisting of the City of Olongapo and the Municipality of Subic, Province of Zambales, the lands occupied by the Subic Naval Base and its contiguous extensions as embraced, covered, and defined by the 1974 Military Bases Agreement between the Philippines and the United States of America, and within the territorial jurisdiction of the Municipalities of Morong and Hermosa, Province of Bataan.

The SSEFZ is a former US military facility converted into civilian use. The vision for the 67,000-hectare Subic Bay Freeport (SBF) is to create a self-sustaining industrial, commercial, financial, and investment center in addition to its international seaport, which can anchor 600 ships.

Registered enterprises in the SSEFZ enjoy various investment incentives including access to first-class commercial, residential, and tourist facilities. A registered SBF enterprise is a business enterprise organized and existing under Philippine or foreign laws, registered with the SBMA, and located within the SBF Zone.

Incentives to entities registered with the SSEFZ include:

- Tax- and duty-free importation of raw materials for manufacture and actually manufactured into finished
products, and on capital goods and equipment needed for the business operation within the zone.

- Exemption from national and local taxes. In lieu thereof, SBF enterprises pay a tax of 5% of gross income earned, which refers to gross sales or revenues derived from any business activity within the zone, less cost of production or direct cost of services as well as other costs specifically determined in regulations to be material in the operation of the business.

Aside from the aforementioned enactments, several laws further encourage or enhance investments in specific sectors. Some of these laws are discussed in the succeeding pages.

An Act Providing for the Terms, Conditions, and Licensing Requirements of RHQs, ROHQs, and RWs (RA No. 8756)

RA No. 8756, signed into law on 23 November 1999, provides, among others, the rules and guidelines on the establishment and maintenance of multinational companies’ Regional or Area Headquarters (RHQs), Regional Operating Headquarters (ROHQs), and Regional Warehouses (RWs).

ROHQs are branches established in the Philippines by multinational companies that are allowed to derive income by providing services to their affiliates in the region.

RHQs are branches established in the Philippines by multinational companies and whose headquarters do not earn or derive income from the Philippines.

Authorized Activities of RHQs, ROHQs, and RWs

RHQs act as supervisory, communications, and coordinating centers for their subsidiaries, affiliates, and branches in the region.

ROHQs, on the other hand, are allowed to provide the following qualifying services:
- General administration and planning
- Business planning and coordination
- Sourcing/procurement of raw materials and components
- Corporate finance advisory services
- Marketing control and sales promotion
- Training and personnel management
- Logistics services
- Research and development services, and product development
- Technical support and maintenance
- Data processing and communication
- Business development

RWs may engage in the following activities:
- Serving as a supply depot for the storage, deposit, safekeeping of spare parts, components, semi-finished products, and raw materials including the packing, covering, putting up, marking, labeling, and cutting or altering to customer’s specification, mounting and/or packaging into kits or marketable lots
- Filling up transactions and sales
made by their head offices or parent companies
• Serving as a storage or warehouse of goods purchased locally by the home office for export abroad.

Tax Treatment and Incentives of RHQs and ROHQs
RA No. 8756 provides favorable tax treatment and other nonfiscal incentives for both the RHQs/ROHQs and their non-Filipino and Filipino employees. Some of these incentives are listed in Table 2.

<table>
<thead>
<tr>
<th>Tax Treatment of Foreign and Filipino Employees of RHQs and ROHQs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expatriate employees of RHQs and ROHQs will enjoy the following incentives:</td>
</tr>
<tr>
<td>• Multiple-entry visa</td>
</tr>
<tr>
<td>• 15% preferential tax on gross compensation income</td>
</tr>
<tr>
<td>• Tax- and duty-free importation of personal and household effects</td>
</tr>
<tr>
<td>• Travel tax exemption</td>
</tr>
</tbody>
</table>

The 15% preferential tax is also available to Filipinos employed in an RHQ/ROHQ who occupy the same positions as the non-Filipino employees. However, Filipino employees have the option to be taxed at either 15% or the normal rates of 0% to 32%, depending on their net taxable income.

<table>
<thead>
<tr>
<th>Licensing of RHQs, ROHQs and RWs</th>
</tr>
</thead>
</table>
| The RHQ license and the ROHQ license of nonbanking and nonfinancial institutions are secured from the SEC, upon the favorable recommendation of the BOI. Banks and financial institutions secure the ROHQ license from the SEC and the BSP, upon the favorable recommendation of the BOI. The primary implementing agency for the establishment and supervision of RWs outside the ecozones is the BOI.

<table>
<thead>
<tr>
<th>Table 2 Some Incentives of RHQs and ROHQs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RHQ</strong></td>
</tr>
<tr>
<td>Exemption from income tax</td>
</tr>
<tr>
<td>Exemption from branch profits remittance tax (BPRT)</td>
</tr>
<tr>
<td>Exemption from VAT; sale or lease of goods and property, and services to the RHQ is subject to 0% VAT</td>
</tr>
<tr>
<td>Exemption from all kinds of local taxes, fees, or charges imposed by a local government unit, except real property tax on land improvements and equipment</td>
</tr>
<tr>
<td>Tax- and duty-free importation of equipment and materials for training and conferences needed and solely used for the RHQ/ROHQ functions, and which are not locally available, subject to prior BOI approval</td>
</tr>
</tbody>
</table>
Investor’s Lease Act (RA No. 7652)
RA No. 7652 allows foreign investors to lease commercial lands in the Philippines for a maximum of 75 years (previously 50 years).

Under this law, any foreign investor infusing capital into the country can lease private lands, in observance of Philippine laws and the following:
1. Lease contract shall first be for 50 years, renewable only once for another 25 years.
2. Leased area will be used solely for investment.
3. Lease contract will conform with the Comprehensive Agrarian Reform Law and the Local Government Code.

Export Development Act of 1994 (RA No. 7844)
This law provides incentives to exporters to encourage investments in the export sector. Exporters are generally defined as earning at least 50% of their normal operating revenue from the sale of products or services abroad.

Features of the Export Development Act (EDA)
The following are the key features of EDA:
- Institutionalization of the Export Development Council (EDC) to direct the export offensive
- Privatization of export promotion functions that can be undertaken by the private sector, including the establishment of world-class Philippine Trade Centers
- Setup of a privately led export financing institution whose services shall be devoted to supporting the financing needs of the export sector
- Granting to exporters of much needed fiscal incentives, most of them patterned after, but not as extensive as those in newly industrializing economies.

Incentives Available to Exporters Registered under EDA
EDA incentives are granted in addition to existing incentives from other government agencies such as the BOI and PEZA. EDA incentives are shown on Table 3.

Table 3  Incentives of Exporters Registered under EDA

- Exemption from PD No. 1853, or Advanced Payment of Customs Duties
- Tax credit for increase in current year's export revenues, computed as follows:
  - Increase in Annual Export Revenue
    - Tax Credit (in %)
      - First 5%  2.5
      - Next 5%  5.0
      - Next 5%  7.5
      - In excess of 15%  10.0
- Tax credit for use or import-substitution of nontraditional products

Amended Build-Operate-Transfer (BOT) Law (RA No. 7718)
The BOT Law spells out the policy and regulatory framework for the participation of private sector entities in the development of infrastructure projects and the provision of services that are normally the responsibility of the government.
Registration with government offices

An investor who will do business in the Philippines will have to register with a number of government offices. These include the SEC, the DTI, the BIR, and the local government.

Securities and Exchange Commission

The SEC is the government agency responsible for registering, licensing, regulating, and supervising all corporations and partnerships organized in the Philippines, including foreign corporations licensed to engage in business or to establish branch offices in the Philippines. The SEC is mandated to implement the following Philippine laws among others:

**PD No. 902-A and the Securities Regulation Code (SRC)**

PD No. 902-A dealt with the reorganization of the SEC and conferred upon it the power to hear and decide on cases involving corporate fraud, intra-corporate disputes, election cases involving officers and directors, suspension of payments proceedings, and rehabilitation proceedings.

With the enactment of the Securities Regulation Code, however, Sec. 5.2, Chapter II thereof removed all jurisdiction of the SEC over all cases enumerated above and transferred jurisdiction to hear and decide these cases to the regular courts. With the realignment of its powers, the SEC then shifted its focus to the promotion of capital market development, in accordance with the mandate of the Securities Regulation Code.

**Corporation Code of the Philippines (Batas Pambansa Blg. 68)**

The Corporation Code or BP Blg. 68 became effective on 1 May 1980. It adopted various corporate doctrines previously enunciated by the Supreme Court under the old Corporation Law and clarified the obligations of corporate directors and officers. The Code was enacted to establish a new concept for business corporations so that these are not merely entities established for private gain but effective partners of the National Government in spreading the benefits of capitalism for the social and economic development of the nation.

Express Registration

To facilitate registering new corporations, the SEC operates an “express lane,” with application forms specially prepared for specific types of business. Filing normally takes one day, provided all necessary documents and prior clearances from other agencies are submitted in the morning.

Department of Trade and Industry

After registration with the SEC, all corporations organized under the Corporation Code are encouraged to register their business name with the DTI.
The DTI-National Capital Region (DTI-NCR) is one of the primary government agencies tasked with the promotion as well as the registration of the trade and industry sector in Metro Manila area.

Among the services of the DTI-NCR is the registration of business names as provided under RA No. 3883. Business name registration involves the submission of copies of the corporation’s articles of incorporation, by-laws, and SEC certificate of registration to the DTI and the payment of a registration processing fee. A business name registration is valid for five years.

Bureau of Internal Revenue

The BIR is tasked to administer the collection of internal revenue taxes pursuant to the Tax Code.

All taxpayers are required to secure from the BIR a unique Taxpayer Identification Number (TIN) which will be indicated on all tax returns filed with the BIR.

Taxpayers will also have to register with the BIR Revenue District Office (RDO) having jurisdiction over the place of business of the taxpayer. The book of accounts, invoices, and receipts of a taxpayer will have to be registered with the RDO before these are used.

Local Government

The Philippines has been divided into provinces, municipalities, and chartered cities, each enjoying a certain degree of local autonomy. The Barangay is the basic political unit.

Republic Act No. 7610, otherwise known as the Local Government Code of 1991, provided for a more responsive and accountable local-government structure. Local governments were given more powers, authority, responsibilities and resources through a system of decentralization. Each unit is allowed to levy and collect taxes and other fees, in accordance to the power delegated to them under the Code.

All business establishments are required to get licenses and permits from the barangay, municipality or city and province where the business is located. Each municipality or city has its own revenue code which provides for the registration procedures and taxation of businesses in the locality.
Taxation

The Philippine Constitution mandates that the rule of taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. In 1997, the Tax Reform Act of 1997 (RA No. 8424) was passed to promote sustainable economic growth by rationalizing the Philippine Internal Revenue System, including tax administration. Amendments to the Tax Reform Act of 1997 have been made, the most recent and significant of which is RA No. 10378, which provides for the exemption of international carriers from the 2.5% Gross Philippine Billings tax, provided the home country of the international carrier will agree to give a similar tax exemption to Philippine carriers.

Income Taxation

Corporations

Classification

For income tax purposes, corporations are classified as domestic or foreign, depending on the place of incorporation or organization.

A domestic corporation is organized under the Philippine laws. It is taxed on the basis of net worldwide income. A foreign corporation is organized under the laws of another country and is further classified as a resident or nonresident. It is considered a resident of the Philippines if it is engaged in trade or business in the Philippines (e.g., through a branch). A resident foreign corporation is taxed on net Philippine-source income, while a nonresident foreign corporation is taxed on gross Philippine-source income.

Income Tax Rates for Domestic and Resident Foreign Corporations

The corporate income tax rate is 30% of net taxable income.

Royalties, interest, dividends, and other passive income of domestic and resident foreign corporations are subject to different rates.

Special Income Tax Rates for Certain Domestic and Resident Foreign Corporations

Proprietary educational institutions and non-profit hospitals are subject to 10% tax on net taxable income. Foreign currency deposit units (FCDUs) and offshore banking units (OBUs) are exempt from all taxes.
on income from foreign currency transactions with nonresidents, and other FCDUs and OBUs, local commercial banks, and branches of foreign banks duly authorized by the Bangko Sentral ng Pilipinas (the Philippines’ Central Bank). Interest income of FCDUs and OBUs from foreign currency loans granted to residents other than FCDUs and OBUs are subject to a final tax of 10%. International carriers are subject to 2.5% final tax on Gross Philippine Billings, but they would be exempted if their home countries would provide a similar tax exemption to Philippine carriers. Regional or area headquarters of multinational companies are exempt from income tax while regional operating headquarters of multinational companies are subject to 10% tax on net taxable income.

Tax incentives like income tax holiday or preferential tax rates (5% on gross income) are available for enterprises in the Ecozones, the Subic Bay Freeport and Special Economic Zone, and the Clark Special and Economic Zone.

**Branch Profit Remittance Tax (BPRT)**

Remittances by branches of foreign corporations in the Philippines (except those activities registered with the Philippine Economic Zone Authority and other companies within the special economic zones, such as the Subic Bay Metropolitan Authority and Clark Development Authority), to their head offices are subject to 15% BPRT. The 15% tax may be further reduced to 10% depending on the double taxation treaty with certain countries. The tax is based on the total profits applied or earmarked for remittance without any deduction for the tax component thereof.

**Other Taxes Imposed on Corporations**

Corporations are also liable for minimum corporate income tax, fringe benefits tax and improperly accumulated earnings tax.

**Minimum corporate income tax (MCIT).**

A 2% MCIT on annual gross income is imposed on corporations with zero or negative taxable income or whose regular corporate income tax (RCIT) liability is less than the MCIT beginning on the fourth taxable year following the year they started business operations. Any excess of the MCIT over the RCIT shall be carried forward and credited against the RCIT for the three immediately succeeding taxable years.

However, the Secretary of Finance may suspend the imposition of the MCIT upon submission of proof by the applicant-corporation, verified by the Commissioner of Internal Revenue’s authorized representative, that the corporation sustained substantial losses on account of a prolonged labor dispute, *force majeure*, or legitimate business losses.

**Fringe benefits tax.**

Fringe benefits granted to supervisory and managerial employees are subject to a 32% tax on the grossed up value of the fringe benefit. Fringe benefits given by OBUs, regional or area headquarters, regional operating headquarters of multinational companies, and petroleum
contractors and subcontractors to qualified non-Filipino employees and, in certain cases, to Filipino employees are taxed at 15% of the grossed up monetary value of the fringe benefit.

**Improperly accumulated earnings tax.**
A 10% tax is imposed on the improperly accumulated earnings of domestic corporations, except in the case of publicly held corporations, banks, and other non-bank financial intermediaries and insurance companies. When a corporation allows its earnings or profits to accumulate beyond its reasonable needs, it shall be assumed that the purpose is to avoid tax on stockholders, unless proven to the contrary.

**Tax on Non-resident Corporations**

Generally, non-resident foreign corporations are taxed at 30% of the gross amount of Philippine source income such as dividends, rents, royalties, compensation, and remuneration for technical services. This tax is withheld at source. There are preferential income tax rates for some types of non-resident corporations, as well as those entities that fall within the scope of specific tax treaty rates entered into by the Philippines.

**Individuals**

**Classification**

For income tax purposes, individuals are classified as:

**Resident citizens.** Resident citizens are taxed on their compensation, business, and other income derived from sources within and outside of the Philippines.

**Non-resident citizens.** Non-resident citizens, including those working and deriving income from abroad such as overseas contract workers and seamen who derive compensation for services rendered abroad as members of a complement of vessels engaged exclusively in international trade, are taxed only on income derived from sources within the Philippines.

**Non-resident aliens engaged in trade or business in the Philippines.** Non-resident aliens engaged in trade or business in the Philippines are taxed in the same manner as citizens and resident aliens but only on Philippine-source income.

**Non-resident aliens not engaged in trade or business in the Philippines.** Non-resident aliens not engaged in trade or business in the Philippines are taxed on gross amount of Philippine-source income.

**Income Tax Rates for individuals**

Citizens, non-resident citizens, resident aliens, and nonresident aliens engaged in trade or business in the Philippines are generally subject to graduated tax rates on income from 5% to 32%. Non-resident aliens not engaged in trade or business in the Philippines are generally subject to a flat income tax rate of 25% on gross income.

Generally, an individual is taxed on two main categories of income: income from employment and income from business or exercise.
of a profession. Royalties, interest, dividends and other passive income of individuals are subject to different tax rates.

**Exemptions**

Citizens and resident aliens are entitled to a personal exemption of PhP50,000 and an additional exemption of PhP25,000 for each qualified dependent child, not exceeding four dependents. The additional tax exemption for each dependent shall be claimed only by the husband unless he waives the right in favor of his wife. Married individuals shall compute their individual income tax separately. Married individuals who do not earn purely compensation income are required to file a tax return to include the income of both spouses, unless it is impractical for both spouses to file one tax return.

Non-resident aliens engaged in trade or business in the Philippines are entitled to personal exemptions (but not to additional exemptions) only by way of reciprocity.

**Tax Treaties**

Specific types of income are exempt from income tax or subject to preferential tax rates under treaties binding on the Philippine government, subject to prior application for availment of exemption or preferential tax treaty rates filed with the BIR. The tax treaties of the Philippines with the following countries are in force:

- Australia
- Austria
- Bahrain
- Bangladesh
- Belgium
- Brazil
- Canada
- China
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Hungary
- India
- Indonesia
- Israel
- Italy
- Japan
- Korea
- Malaysia
- Netherlands
- New Zealand
- Norway
- Pakistan
- Poland
- Romania
- Russia
- Singapore
- Spain
- Sweden
- Switzerland
- Thailand
- United Arab Emirates
- United Kingdom and Northern Ireland
- United States
- Vietnam

**Withholding Tax**

**System of Withholding Tax**

Creditable Withholding Tax (CWT). Certain income payments made by a resident to another resident are subject to specified withholding tax rates. The Tax withheld is creditable against the income tax liability of the recipient.

**Withholding Tax on Wages.** This is the tax withheld from individuals receiving purely compensation income. Employers are required to withhold the tax due on salaries and wages paid to their employees. Subject to certain conditions, employees may no longer be required to file income tax returns at the end of the taxable year.

**Final Withholding Tax (FWT).** Under the FWT system, the amount of income tax withheld by the withholding agent is constituted as a full and final payment of the income tax due from the payee on the said income.
Value-Added Tax (VAT)

In general, sale of goods, sale of services and lease of properties, as well as importation of goods are subject to VAT. Pursuant to RA No. 9337 and upon the recommendation of the Secretary of Finance, the President raised the VAT rate to 12% effective 1 February 2006. The Tax Reform Act of 1997 also provides for transactions that are subject to 0% VAT as well as transactions that are exempt from VAT.

Excise Tax

Excise taxes are imposed on certain goods (such as cigarettes, liquor, petroleum products, mineral products, and motor vehicles) manufactured or produced in the Philippines for domestic sale or consumption or for any other disposition. Excise taxes are also imposed on certain imported goods, in addition to the VAT and customs duties.

RA No. 9224 rationalized the excise tax on automobiles based on the manufacturer’s or importer’s selling price, net of excise and VAT. RA 10351 revised the rates and bases of excise tax on alcohol and tobacco products and the BIR issued RR No. 17-2012, Revenue Memorandum Circular (RMC) No. 3-2013 and RMC No. 10-2013 to implement the provisions of RA No. 10351.

Percentage Tax

Persons or entities not subject to VAT, including domestic common carriers of passengers, international carriers on their transport of cargo from the Philippines to another country, and those in the amusement business, are subject to percentage tax on gross receipts or gross income.

Stock Transaction Tax (STT)

The STT is imposed on the sale, barter, exchange, or other disposition of shares through the facilities of the Philippine Stock Exchange (PSE) other than the sale by a dealer in securities at the rate of ½ of 1% of gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed.

Initial Public Offering (IPO) Tax

A tax is also imposed on the sale, barter, exchange, or other disposition through IPO of shares of stock in closely held corporations in accordance with the proportion of shares of stock sold through IPO. A closely held corporation is any corporation of which at least 50% in value of the outstanding capital stock or at least 50% of the total combined voting power of all classes of stock entitled to vote is owned directly or indirectly by or for not more than 20 individuals.

The IPO tax shall be at the following rates, in accordance with the proportion of shares sold, bartered, or exchanged to the total outstanding shares of stock after the listing in the local stock exchange:

- Up to 25%: 4%
- Over 25% but not over 33.33%: 2%
- Over 33.33%: 1%

The IPO tax shall be paid by the issuing corporation in a primary offering or by the seller in a secondary offering. The tax base shall be the gross selling price or
gross value in money of the shares of stock sold, bartered, exchanged, or otherwise disposed of.

**Documentary Stamp Tax**

The DST is an excise tax on documents, instruments, loan agreements, lease agreements, shares of stocks, bonds, mortgage, insurance policies and papers, and on acceptances, assignments, sales and transfers of the obligation, right or property incident thereto. This tax is imposed on the maker, signor, issuer, acceptor, or transferor of the document.

Certain industries, including banks and select financial institutions, shipping and airline companies, pre-need companies and educational institutions are mandated to use the web-based eDST System beginning 1 July 2010. RA 9648 exempts from DST any sale, barter, or exchange of shares of stock listed and traded through the PSE.

In order to boost stock trading and the equity market, RA No. 9243 or the Act Rationalizing the Provisions of the DST was passed on 17 February 2004. The said act lists additional transactions exempt from DST, provides lower DST rates for investments in shares, and specifies the new DST base for insurance policies, annuities and pre-need plans and a uniform DST rate on debt instruments. RR No. 13-2004 issued on 23 December 2004 implements the provision of the said act.

**Customs Duty**

Goods imported into the Philippines are generally subject to customs duty (aside from 12% VAT and excise tax on certain goods). For customs purposes, the value of imported goods are based on their transaction value, i.e., the price paid or payable for the goods when sold for export to the Philippines, with certain specified adjustments. The applicable duty rate (most-favored nation [MFN] rate) will depend on the appropriate classification of the goods under the Tariff and Customs Code of the Philippines (TCCP), which generally ranges from 0% to 30%. Preferential rates under the Common Effective Preferential Tariff of the ASEAN Free Trade Agreement (AFTA) are generally lower than the MFN rates.

Certain importations are exempt from the imposition of customs duty, such as conditionally free importations, items entered into a customs bonded warehouse, and importations under special laws. Importers and their brokers are required to keep records of importations within three years from the date of importation of the goods. The Bureau of Customs has the power to conduct post-entry audit on the importers’/brokers’ books within the same period to determine compliance with customs rules and to assess any deficiency customs duty.

**Local Taxes**

Under the Local Government Code, local government units (LGUs) are given the authority to tax certain activities and business conducted within their jurisdiction unless otherwise expressly exempt by law. LGUs are also authorized to levy an annual *ad valorem* tax on real property such as land, building, machinery, and other improvements, as well as transfer tax on the sale, donation, barter, or on any other mode of transfer of real property. However, the taxing powers of LGUs do not extend to the levy of income tax, custom duties, DST, estate tax, and gift tax, among others.
Labor Requirements

The laws on labor standards and employment relations are consolidated in the Labor Code of the Philippines, which is supplemented, from time to time, by legislative issuances. The salient points of employment conditions and employee benefits covered by Philippine labor laws are given below.

Hours of Work

Eight hours per day or 48 hours per week is the maximum period an employee may be required to work at his regular rate of pay. Workers are entitled to a rest period of 24 consecutive hours after every six consecutive normal work days. Some exceptions are managerial employees, field personnel, those in the personal services of another, and workers paid by results.

Work Day

A day is the 24-hour period which begins from the time the employee regularly starts to work. Thus, if an employee regularly works from 8:00 a.m. to 4:00 p.m., the work day of such employee is from 8:00 a.m. of a given day to 8:00 a.m. of the following day. Any work in excess of eight hours within the 24-hour period is considered overtime work, regardless of whether the work covers two calendar days.

Overtime Remuneration

Overtime (OT) premium is allotted for work exceeding the maximum prescribed period. Table 4 presents the OT rates per hour for overtime work rendered on the specified days.

Night Shift Differential Pay

Night shift employees must be paid a differential of not less than 10% of the regular wage for each hour of work performed between 10:00 p.m. and 6:00 a.m.

Service Incentive Leave Pay

Every employee who has rendered at least one year of service is entitled to a yearly service incentive leave of five days with pay.
Meal and Rest Periods

Every employer is obliged to give his employees not less than one hour time-off for regular meals, except in the following cases when a meal period of not less than 20 minutes a day may be given, provided that such shorter meal period is credited to the employee as compensable hours worked: (1) where the work is non-manual in nature and does not involve strenuous physical exertion; (2) where the establishment regularly operates not less than 16 hours a day; (3) in cases of actual or impending emergencies or where there is urgent work to be performed on machinery, equipment, or installations to avoid serious loss which the employer would otherwise suffer; or (4) where the work is necessary to prevent serious loss of perishable goods. Rest periods or coffee breaks running from five to 20 minutes shall be considered as compensable working time.

Minimum Wage

The minimum wage rates for agricultural and non-agricultural workers in every region are determined by the Regional Tripartite Wages and Productivity Board. Effective July 1990, RA No. 6727 rationalized the structuring of the minimum wage adjustments in order to address the regional and intraregional disparities in the cost of living in different regions (see Table A3 on page 45 for the minimum wage rates of non-agricultural workers).

Salaries and wages must be paid at least once every two weeks and must be in legal tender and not by means of vouchers, token, or the like.

Employees’ Compensation Program

Coverage under the Program is compulsory for every employer with one or more employees and for the National Government and only its political subdivisions.

Table 4 Overtime rates per hour

<table>
<thead>
<tr>
<th>Category</th>
<th>Computation (in Philippine pesos)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OT work on regular day</td>
<td>125% * rate/hour</td>
</tr>
<tr>
<td>OT work during rest day or special public holiday</td>
<td>130% * rate/hour + 30% of (130% of rate/hour)</td>
</tr>
<tr>
<td>First 8 hours</td>
<td></td>
</tr>
<tr>
<td>In excess of the first 8 hours</td>
<td></td>
</tr>
<tr>
<td>OT work on special public holiday falling on employee’s rest day</td>
<td>150% * rate/hour + 30% of (150% of rate/hour)</td>
</tr>
<tr>
<td>First 8 hours</td>
<td></td>
</tr>
<tr>
<td>In excess of the first 8 hours</td>
<td></td>
</tr>
<tr>
<td>OT work on regular holiday</td>
<td>200% of rate/hour + 30% of (200% of rate/hour)</td>
</tr>
<tr>
<td>First 8 hours</td>
<td></td>
</tr>
<tr>
<td>In excess of the first 8 hours</td>
<td></td>
</tr>
<tr>
<td>OT work on rest day falling on a regular holiday</td>
<td>260% of rate/hour + 30% of (260% of rate/hour)</td>
</tr>
<tr>
<td>First 8 hours</td>
<td></td>
</tr>
<tr>
<td>In excess of the first 8 hours</td>
<td></td>
</tr>
</tbody>
</table>

Source: http://www.coa.gov.ph/tsolmp/TSOIntra/Manpower(labor).htm
and instrumentalities, including government-owned and controlled corporations (GOCCs). Private employees are covered under the Social Security System (SSS); government employees are covered under the Government Service Insurance System (GSIS).

For the private sector, monthly contributions to the Program must be shouldered solely by the employer at the rate of 1% of the employee’s total monthly salary credits, but not exceeding PhP10.00 per month. All premiums, revenues, and other collections constitute the State Insurance Fund, from which the compensation and other benefits are paid to the employees or their heirs.

**National Health Insurance**

All citizens of the Philippines are covered by the National Health Insurance Program (NHIP), which is administered by the Philippine Health Insurance Corporation (PHIC). All members of NHIP contribute to the National Health Insurance Fund in accordance with a reasonable, equitable, and progressive contribution schedule to be determined by PHIC. Table 5 enumerates some of the personal health services granted to members or their dependents under RA No. 7875 (effective 14 February 1995).

**Emergency, Medical, and Dental Services**

Every employer is required to keep in his establishment the first-aid medicine and equipment stipulated by the Department of Labor and Employment (DOLE).

If the work is hazardous, the part-time physician or dentist must be on the employer’s premises at least two hours a day. If the number of employees requires that a full-time physician be in attendance, the physician must remain in the employer’s premises for eight hours a day. If the work is non-hazardous, the physician and the dentist may be kept on retainer.

**Woman and Child Labor**

A female employee is entitled to maternity benefits. If an employee is an SSS member and has paid at least three monthly contributions in the 12-month period immediately preceding the semester of her childbirth or miscarriage, she is entitled to maternity leave with

---

**Table 5 Personal health services granted to NHIP members or their dependents**

- Inpatient hospital care
  - Room and board
  - Services of health care professionals
  - Diagnostic, laboratory, and other medical examination services
  - Use of surgical or medical equipment and facilities
  - Prescription drugs and biological, subject to the limitations stated in Section 37 of RA No. 7875
  - Inpatient education packages
- Outpatient care
  - Services of health care professionals
  - Diagnostic, laboratory, and other medical examination services
  - Personal preventive services
  - Prescription drugs and biological, subject to the limitations stated in Section 37 of RA No. 7875
- Emergency and transfer services
- Other health care services that the Philippine Health Insurance Corporation shall determine to be appropriate and cost-effective

*Source: Republic Act No. 7875: The National Health Insurance Act of 1995*
pay for 60 days, or 78 days in the case of cesarean delivery, subject to certain conditions enumerated in the Social Security Act of 1997, such as:

1. The employee should have notified her employer of her pregnancy and probable date of childbirth, which notice shall be transmitted to the SSS.
2. The full payment shall be advanced by the employer within 30 days from the filing of the maternity leave application.
3. The maternity benefits shall be paid only for the first four deliveries or miscarriages.
4. The SSS shall immediately reimburse the employer the amount of the benefits advanced to the employee.

No child below 15 years of age may be employed unless directly supervised by a parent or guardian in activities that are nonhazardous and do not interfere with the child’s schooling. Any minor between 15 and 18 years of age may be employed in nonhazardous undertakings if such activities comply with regulations issued by the DOLE.

Under RA No. 7877, all forms of sexual harassment in the employment, education, or training environment are unlawful. Employers shall promulgate appropriate rules and regulations to implement the law.

**Paternity Leave**

Effective August 1996, every married male employee both in the private and public sectors shall be entitled to a paternity leave of seven days with full pay for the first four deliveries of the legitimate spouse.

**Termination of Employment**

The State guarantees the rights of all workers to security of tenure and protects all workers from arbitrary deprivation of employment. An employer, therefore, may not terminate the services of an employee except for just cause or when authorized by the Labor Code. Just causes for termination include serious misconduct or willful disobedience, gross and habitual neglect, fraud, commission of a crime or offense by the employee against the person of his or her employer, and other analogous causes. If the dismissal is based on any of these just causes, the employer must give the employee two written notices and a hearing or opportunity to be heard if requested by the employee before terminating the employment.

Further, the employer may also terminate the employment of any employee due to the installation of labor saving devices, redundancy, retrenchment to prevent losses, or the closing or cessation of operation of the establishment or undertaking. In these instances, the employer is required by law to serve a written notice to the employee and the DOLE at least one month prior to the intended date of termination.

Failure to comply with the procedural requirements of notice and hearing will make the employer liable for damages. (Agabon vs. NLRC, G.R. No. 158693, 17 November 2004)

**Unions**

The right of workers to form labor unions is recognized and respected by the government. Workers may engage in concerted activities for collective bargaining purposes or for their mutual benefit or protection.
Financial and Monetary Policies

Philippine monetary policy is enforced by the BSP created under RA No. 7653. Prior to May 1993, this authority resided with the Central Bank of the Philippines. Foreign exchange regulations have been relaxed with the issuance of BSP Circular No. 5, dated 15 September 1993. The key features of this circular are shown in Table 6.

Other Business Regulations

Immigration and Employment Regulations for Foreigners in the Philippines

The government has liberalized the visa requirements for certain categories of foreigners to encourage foreign participation in the economic development of the country. Foreign stockholders, investors, representatives of investment houses, and land developers are among the categories granted this special incentive.

The following visas may be granted to foreigners who will work or render service in the Philippines:

Treaty Trader’s/Investor’s Visa under Section 9(d) of the Philippine Immigration Act
This visa is granted to aliens entering the country to carry on trade between the Philippines and the foreign state of which they are nationals, under and pursuant to the provisions of a treaty of amity, commerce, and navigation. The immigration office requires an initial investment of US$30,000 or annual trade worth US$120,000. At present, the only countries with which the Philippines has entered into a treaty of amity, commerce, and navigation are the United States of America, Germany, and Japan.

Prearranged Employee’s Visa under Section 9(g) of the Philippine Immigration Act
This is a regular work visa given to foreign nationals to undertake employment in the Philippines in a technical, managerial, or confidential capacity. However, it must be shown that there are no local Filipinos or residents who are willing and competent to perform the labor or service for which the foreign national is being hired and that the latter’s admission would be beneficial to the public interest. This type of visa is subject to the approval of the Board of Commissioners of the Bureau of Immigration (BI) meeting en banc.

A requirement in processing this visa is the submission to the BI of the Alien Employment Permit (AEP). Normally, the validity date of this visa is co-terminus with the validity date of the foreign

Table 6 Key Features of BSP Circular No. 5

- Foreign exchange may be freely sold and purchased outside the banking system
- Foreign exchange receipts, acquisitions, or earnings may be sold for pesos to unauthorized agent banks or outside the banking system, retained, or deposited in foreign currency accounts, whether in the Philippines or abroad, or may be used for any other purpose

Source: Bangko Sentral ng Pilipinas
national’s AEP or the expiration of his or her employment contract, whichever comes first. The AEP is granted by the DOLE only after the sponsoring company complies with the labor market test and submits an Understudy Training Program. The latter requires that the foreign national train at least two Filipinos under his or her supervision.

**Special Nonimmigrant Visa under Sec. 47(a)(2)**
This type of visa may be issued to foreign nationals employed by enterprises registered with the PEZA and the BOI, as well as those who are temporarily assigned to work in government projects. Although all of them enjoy multiple entry privileges, foreign employees of PEZA-registered enterprises are also exempt from fingerprinting and registration with the BI, paying fees, and securing clearances. However, foreign nationals with this visa are still required to secure an AEP from the DOLE.

**Special Nonimmigrant Visa under PD No. 1034**
This visa is granted to foreign personnel of offshore banks duly licensed by the BSP to operate as an offshore banking unit. They are also entitled to multiple entry privileges and are exempt from paying immigration fees, fingerprinting, registration with the BI, and securing an AEP from the DOLE.

**Special Subic Work Visa**
This visa is granted to foreign nationals employed as executives by Subic Bay Freeport Zone enterprises and to other foreign nationals possessing highly technical skills.

**Other Immigration Policies**
Foreign nationals who wish to come to the Philippines can either enter as a tourist without visa under EO No. 408, or secure a temporary visitor’s visa under Section 9(a) before any Philippine consular post abroad. The Section 9(a) visa can either be for business, pleasure, or health and normally entitles an alien to an initial stay of 59 days, extendible to a year.

While in the Philippines, aliens are allowed by the BI to convert their immigration status from tourist/temporary visitor to another visa category without having to leave the country.

The foreign national must be in the Philippines when his or her application for conversion of immigration status is approved; otherwise, it will be invalidated. If this happens, there will be a need to file an application for revalidation.

The spouse and dependent children may likewise qualify for the same visa category as that of the principal applicant.

While the expatriate’s application for conversion of immigration status is being processed by the BI, he or she should apply for a Provisional Permit to Work.
**Philippine Environmental Laws**

When an investment involves a proposed project or undertaking which may affect the quality of the environment, the project proponent is subject to the implementing rules and regulations of PD No. 1586, otherwise known as the Philippine Environmental Impact Statement (EIS) System. PD No. 1586 requires a project proponent to conduct an Environmental Impact Assessment (EIA) to ensure that all possible environmental effects of the project are addressed, in line with the country’s overall goal of sustainable development.

The EIA process results in the preparation of an EIS or an Initial Environmental Examination (IEE), depending on the location and nature of the project. The final report is submitted to the DENR, together with other required documents such as clearances from other government agencies and endorsements of the project from local government officials. After its review, the DENR decides on the issuance or denial of an Environmental Compliance Certificate (ECC), without which the project cannot be implemented legally (e.g., the proposed project site cannot be altered in any way).

The ECC typically includes a number of conditions which the proponent must follow during the construction and operational phases of the project. The ECC identifies all other applicable environmental laws, regulations, or guidelines which the proponent must comply with to ensure the continuous implementation of the project. If an ECC is denied, the proponent may submit a new EIS corresponding to a new site or change the facilities’ design and operation.

### Areas where a project impacts the environment

1. **Natural environment** – land, water, atmosphere, terrestrial life, aquatic life, ecological balance
2. **Socioeconomic conditions** – demographic, lifestyles, amenities, cultural minorities, historical sites, health, economics

### Examples of negative impacts

1. Water and air pollution
2. Destruction of historical or archaeological sites
3. Disruption of wildlife habitats
4. Increase of urban congestion
5. Threats to health
6. Undesirable land use patterns

*Source: Implementing Rules and Regulations for PD No. 1586*
Philippine Laws on Intellectual Property Rights

The Philippines provides foreign investors with ample protection of their intellectual property rights (IPR). In contrast to other countries in the Asia-Pacific region where IPR protection is either lacking or only recently provided, the Philippines had in place the necessary legal infrastructure for IPR protection even before the country became independent in 1946. This infrastructure is basically patterned after US laws, regulations, and practices. In 1997, the Philippine government codified into a single law the different legal issuances governing IPR protection in the country. With the creation of the Intellectual Property Code of 1997 (RA No. 8293), the Philippines provides an effective means of encouraging innovation by local and foreign scientists, investors, artists, and other gifted citizens through the protection of their intellectual property rights and creations. Embodied in this Act is the establishment of the Intellectual Property Office.

RA No. 8293 aims to develop domestic creative activity, facilitate transfer of technology, attract foreign investments, and ensure market access for our products.

Due to the extraterritorial nature of IPR protection, the Philippines has acceded to international conventions under the World International Property Organization. The Philippines is a signatory to the following conventions: Berne Convention for the Protection of Literary and Artistic Works (Brussels Act of 1948); Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations; and Paris Convention for the Protection of Industrial Property (Lisbon Revision).

<table>
<thead>
<tr>
<th>Functions of the Intellectual Property Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Examine applications for grant of letters patent for inventions and register utility models and industrial designs</td>
</tr>
<tr>
<td>▶ Examine applications for the registration of marks, geographic indication, and integrated circuits</td>
</tr>
<tr>
<td>▶ Register technology transfer arrangements and settle disputes involving technology transfer payments, and develop and implement strategies to promote and facilitate technology transfer</td>
</tr>
<tr>
<td>▶ Promote the use of patent information as a tool for technology development</td>
</tr>
<tr>
<td>▶ Publish regularly in its own publication the patents, marks, utility models, and industrial designs issued and approved, and the technology transfer arrangements registered</td>
</tr>
<tr>
<td>▶ Administratively arbitrate contested proceedings affecting intellectual property rights</td>
</tr>
<tr>
<td>▶ Coordinate with other government agencies and the private sector on the formulation and implementation of plans and policies to strengthen the protection of intellectual property rights in the country</td>
</tr>
</tbody>
</table>
The Philippines

The Philippine market environment

1. General Information

The REPUBLIC OF THE PHILIPPINES encompasses an archipelago of 7,107 islands some 800 km off the southeast coast of Asia (see Chart A1). The archipelago, which extends 1,770 km north to south, is roughly triangular, and bounded by the South China, Sulu, and Celebes Seas. The Philippine Trench, 10,500 meters deep, runs along the eastern coastline. The islands are generally mountainous and have narrow coastal plains. Just eleven islands constitute over 90% of the total land area.

Luzon in the north is the largest island, much of it mountainous and rugged. The Zambales Mountains on the west coast partly enclose a broad central plain - the country’s only extensive lowland - running from the Lingayen Gulf in the north to Manila Bay. Between Luzon and the second-largest island, Mindanao in the southeast, is a scattered range of islands including those of the Visayas group, such as Samar, Leyte, Cebu, Negros, Panay, Romblon, and Mindoro. A chain of small volcanic islands, the Sulu Archipelago, extends southwest. North of Sabah (northern Borneo) is the island ridge of Palawan.

Like its ASEAN neighbors, the Philippines is subject to seasonal monsoon winds blowing from the southwest between May and October, and from the northeast between November and February. Temperatures do not vary greatly from north to south, but they are affected by altitude; the high ground is always cooler, and also generally wetter. Tropical typhoons normally occur between June and December.

Forests range from tropical rainforest near the coasts to subtropical evergreens on the slopes, and pinewoods around the peaks of northern Luzon.

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Chart A1  The Philippines... at a glance

<table>
<thead>
<tr>
<th>Category</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>300,000 sq.km.</td>
</tr>
<tr>
<td>Major islands</td>
<td>Luzon, Visayas, Mindanao</td>
</tr>
<tr>
<td>Population</td>
<td>103.8 million, 1.9% growth (July 2012)</td>
</tr>
<tr>
<td>Median age</td>
<td>23 years old</td>
</tr>
<tr>
<td>Languages</td>
<td>Filipino, English</td>
</tr>
<tr>
<td>GDP</td>
<td>US$ 416.7 billion (PPP, 2012)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>US$ 4,300 (PPP, 2012)</td>
</tr>
<tr>
<td>GDP composition</td>
<td>Services (56%), Industry (31%), Agriculture (13%)</td>
</tr>
<tr>
<td>Labor force</td>
<td>40 million</td>
</tr>
</tbody>
</table>

Source: World Factbook 2013
2. Philippine Demographics

2.1 Population. The Filipino population grew from 76.5 million in census year 2000 to 92.3 million in census year 2010 for an average growth rate of 1.9% a year. The three largest regions, namely, CALABARZON (12.6 million), the National Capital Region or NCR (11.8 million), and Central Luzon (10.1 million), added up to 34.5 million or 37.5% of the total population. Meanwhile, regions with above-average growth rates include the CALABARZON (3%), SOCCSKSARGEN (2.5%), Central Luzon (2.1%), Northern Mindanao (2%), and the Davao Region (2%).

The Philippines is comprised of a relatively young population. The median age is about 23 years old and one-third of the population is below 15 years old (see Table A2).

There are about 57.4 million people or 62.1% of the population between ages 15 to 64 years old. Those 14-years-and-below and 65-years-and-older add up to 34.7 million or 37.6% of the population. In census year 2010, the country had a dependency ratio of 60.5%, which has decreased from 69% in 2000.

<table>
<thead>
<tr>
<th>Region</th>
<th>2000</th>
<th>2010</th>
<th>G.R., %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>76,506,928</td>
<td>92,337,852</td>
<td>1.9%</td>
</tr>
<tr>
<td>NCR</td>
<td>9,932,560</td>
<td>11,855,975</td>
<td>1.8%</td>
</tr>
<tr>
<td>CAR</td>
<td>1,365,412</td>
<td>1,616,867</td>
<td>1.7%</td>
</tr>
<tr>
<td>Ilocos</td>
<td>4,200,478</td>
<td>4,748,372</td>
<td>1.2%</td>
</tr>
<tr>
<td>Cagayan Valley</td>
<td>2,813,159</td>
<td>3,229,163</td>
<td>1.4%</td>
</tr>
<tr>
<td>Central Luzon</td>
<td>8,204,742</td>
<td>10,137,737</td>
<td>2.1%</td>
</tr>
<tr>
<td>CALABARZON</td>
<td>9,320,629</td>
<td>12,609,803</td>
<td>3.0%</td>
</tr>
<tr>
<td>MIMAROPA</td>
<td>2,299,229</td>
<td>2,744,671</td>
<td>1.8%</td>
</tr>
<tr>
<td>Bicol</td>
<td>4,686,669</td>
<td>5,420,411</td>
<td>1.5%</td>
</tr>
<tr>
<td>Western Visayas</td>
<td>6,211,038</td>
<td>7,102,438</td>
<td>1.4%</td>
</tr>
<tr>
<td>Central Visayas</td>
<td>5,706,953</td>
<td>6,800,180</td>
<td>1.8%</td>
</tr>
<tr>
<td>Eastern Visayas</td>
<td>3,610,355</td>
<td>4,101,322</td>
<td>1.3%</td>
</tr>
<tr>
<td>Zamboanga Peninsula</td>
<td>2,831,412</td>
<td>3,407,353</td>
<td>1.9%</td>
</tr>
<tr>
<td>Northern Mindanao</td>
<td>3,505,708</td>
<td>4,297,323</td>
<td>2.1%</td>
</tr>
<tr>
<td>Davao</td>
<td>3,676,163</td>
<td>4,468,563</td>
<td>2.0%</td>
</tr>
<tr>
<td>SOCCSKSARGEN</td>
<td>3,222,169</td>
<td>4,109,571</td>
<td>2.5%</td>
</tr>
<tr>
<td>ARMM</td>
<td>2,803,045</td>
<td>3,256,140</td>
<td>1.5%</td>
</tr>
<tr>
<td>CARAGA</td>
<td>2,095,367</td>
<td>2,429,224</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: National Statistics Office

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Number</th>
<th>Percentage, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4</td>
<td>12.6</td>
<td>11.1</td>
</tr>
<tr>
<td>5-9</td>
<td>12.7</td>
<td>11.2</td>
</tr>
<tr>
<td>10-14</td>
<td>11.7</td>
<td>11.0</td>
</tr>
<tr>
<td>15-19</td>
<td>10.5</td>
<td>10.5</td>
</tr>
<tr>
<td>20-24</td>
<td>9.2</td>
<td>9.1</td>
</tr>
<tr>
<td>25-29</td>
<td>7.9</td>
<td>8.0</td>
</tr>
<tr>
<td>30-34</td>
<td>7.2</td>
<td>7.3</td>
</tr>
<tr>
<td>35-39</td>
<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td>40-44</td>
<td>5.4</td>
<td>5.9</td>
</tr>
<tr>
<td>45-49</td>
<td>4.4</td>
<td>5.1</td>
</tr>
<tr>
<td>50-54</td>
<td>3.4</td>
<td>4.2</td>
</tr>
<tr>
<td>55-59</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>60-64</td>
<td>2.1</td>
<td>2.4</td>
</tr>
<tr>
<td>65-69</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>70-74</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>75-79</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>80 and over</td>
<td>0.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: National Statistics Office
2.2 Minimum wage rates. The minimum daily wage rates for workers are set by Wage Boards at the different regions of the country (see Table A3). For example, at the National Capital Region (NCR), the daily wage rates range from PhP419.00 to PhP456.00 or US$10.25 to $11.16 (at PhP40.87 = US$1). In the less urbanized areas like Cordillera Autonomous Region (CAR), the daily wage rates range from PhP246.00 to PhP280.00 or US$6.03 to US$6.86.

2.3 Labor force and employment. The Philippines had a 40.4-million strong labor force by July 2012, a 1.2% increase from July 2011. This places the country among the top 10 developing economies with a large labor force.

With the growth of the economy, the number of unemployed decreased to 7.0% or 2.8 million in 2012, while the number of underemployed persons or those employed who desire to have additional hours of work grew by 20.5% to 8.5 million.

Table A3 Summary of current regional daily minimum wage rates
As of December 2012

<table>
<thead>
<tr>
<th>Region</th>
<th>WO No./ Date of Effectivity</th>
<th>Non-Agriculture</th>
<th>Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Non-Plantation</td>
<td>Plantation</td>
</tr>
<tr>
<td>NCR a/</td>
<td>WO 17/June 3/Nov.1, 2012</td>
<td>PhP 419.00 - 456.00</td>
<td>PhP 419.00</td>
</tr>
<tr>
<td>CAR b/</td>
<td>WO 15/June 18, 2012</td>
<td>263.00 - 280.00</td>
<td>246.00 - 262.00</td>
</tr>
<tr>
<td>I c/</td>
<td>WO 15/July 25, 2012</td>
<td>233.00 - 253.00</td>
<td>233.00</td>
</tr>
<tr>
<td>II d/</td>
<td>WO 15/May 16, 2012</td>
<td>247.00 - 255.00</td>
<td>235.00 - 243.00</td>
</tr>
<tr>
<td>III e/</td>
<td>WO 17/October 11, 2012</td>
<td>285.00 - 336.00</td>
<td>270.00 - 306.00</td>
</tr>
<tr>
<td>IV-A f/</td>
<td>WO 15/May 15, 2012</td>
<td>255.00 - 349.50</td>
<td>251.00 - 324.50</td>
</tr>
<tr>
<td>IV-B g/</td>
<td>WO 05/Nov. 11, 2010</td>
<td>252.00 - 264.00</td>
<td>210.00 - 219.00</td>
</tr>
<tr>
<td>V h/</td>
<td>WO 15/ April 7, 2012</td>
<td>228.00 - 252.00</td>
<td>228.00</td>
</tr>
<tr>
<td>VI i/</td>
<td>WO 20/ May 31, 2012</td>
<td>235.00 - 277.00</td>
<td>245.00</td>
</tr>
<tr>
<td>VII j/</td>
<td>WO 17/December 7, 2012</td>
<td>282.00 - 327.00</td>
<td>262.00 - 309.00</td>
</tr>
<tr>
<td>VIII k/</td>
<td>WO 17/October 16, 2012</td>
<td>260.00</td>
<td>235.00-241.00</td>
</tr>
<tr>
<td>IX l/</td>
<td>WO 17/ Nov. 25, 2011</td>
<td>267.00</td>
<td>242.00</td>
</tr>
<tr>
<td>X m/</td>
<td>WO 16/July 24, 2011</td>
<td>271.00 - 286.00</td>
<td>259.00 - 274.00</td>
</tr>
<tr>
<td>XI n/</td>
<td>WO 17/Jan. 1, 2012</td>
<td>301.00</td>
<td>291.00</td>
</tr>
<tr>
<td>XII o/</td>
<td>WO 17/April 18, 2012</td>
<td>270.00</td>
<td>248.00</td>
</tr>
<tr>
<td>XIII p/</td>
<td>WO 11/November 11, 2011</td>
<td>258.00</td>
<td>248.00</td>
</tr>
<tr>
<td>ARMM q/</td>
<td>WO 14/September 21, 2012</td>
<td>232.00</td>
<td>232.00</td>
</tr>
</tbody>
</table>

Source: National Wages and Productivity Commission
2.4 Overseas Filipino workers.
Over 9 million Filipinos have sought employment or residence abroad as production workers (including unskilled construction workers), service workers (e.g., entertainers, sales clerks, and domestic helpers), and professionals (e.g., doctors, nurses, and teachers). While OFWs come from all over the country, the majority are from the CALABARZON (16.5%), Central Luzon (14.3%) and NCR (12.5%).

The National Statistics Office reported in June 2012 that from April to September 2011, over 2 million overseas Filipino workers (or OFWs) were deployed, with more than half going to Saudi Arabia (22.6%), United Arab Emirates (14.6%), Qatar (6.9%), Singapore (6.3%), and Hong Kong (5.3%).

Overseas remittances increased by 6.3% in the third quarter of 2012, making the Philippines the fourth largest recipient behind India, China, and Mexico. On average, the overseas remittances were larger than foreign direct investments, and easily offset the country’s trade deficits. More importantly, the monthly remittances enable the recipient households to meet basic needs as well as education and health expenses, microenterprises, and, in recent years, housing.
3. Philippine Economy

3.1 Recent economic growth. The Philippines weathered the 2008-09 global recession better than its regional peers due to minimal exposure to securities issued by troubled global financial institutions; lower dependence on exports; relatively resilient domestic consumption, supported by large remittances from the four to five million overseas Filipino workers, and a growing business process outsourcing industry. Growth was further buoyed by strong election spending.

The Philippine economy grew 6.6% in 2012 following a growth of 3.7% in 2011. This came as a pleasant surprise because of the weak, if not deteriorating, economic conditions in the global environment, particularly in Europe.

The growth performance translates to an estimated annual per capita income of about US$2,450, putting the Philippines among the middle income developing Asian economies.

Chart A4  Growth of real output, %, 2007-2012, first semester

Table A4  Growth of real output by sector, %, first semester of 2011-2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011 S1</th>
<th>2012 S1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>6.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Industry</td>
<td>2.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Services</td>
<td>4.7</td>
<td>7.8</td>
</tr>
<tr>
<td>GDP</td>
<td>4.2</td>
<td>6.1</td>
</tr>
<tr>
<td>GNP</td>
<td>3.0</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Sources: National Accounts, NSCB
Consumer spending, OFW remittances, and the offshoring and outsourcing sector have been consistently driving Philippine economic growth in the last five years.

In addition, other factors that were sorely missed in earlier years came to the fore and boosted the economic performance in 2012. Government spending accelerated and complemented consumer spending. Public investment rebounded and led the resurgence in capital formation.

Other sectors such as transport, trade, banking and other services revved up and grew at par, if not faster, than business process outsourcing. Finally, exports of commodities other than electronics and semiconductors improved.

### 3.2 Regional performance

Metro Manila or NCR is the center of economic and financial activities in the country. It hosts 12.8% of the country’s population, particularly the middle class. It contributes over one-third of the country’s output. Moreover, its economic activities have expanded to neighboring provinces, particularly those in Central Luzon and CALABARZON. The three regions, which are increasingly linked by improvements in the transport and communications infrastructure, account for 37.5% of the country’s population, and over half of the country’s output and consumer spending. Meanwhile, the Visayas and Mindanao regions account for 15% and 17%, respectively, of the country’s output and consumer market.

The government has formulated a strategy of putting the country’s 16 regions into four “Super Regions.” The Metro Luzon Urban Beltway puts together NCR, Central Luzon, and Calabarzon to focus on industrial and commercial activities. The northern regions will comprise the Northern Luzon Agribusiness Quadrangle. The Visayan regions plus Palawan will form Central Philippines Super Region to focus on tourism and other services. Finally, the Mindanao Super Region will concentrate on agribusiness development.

### 3.3 Trade performance

Merchandise exports rebounded 8% to US$27 billion while imports barely moved from US$31 billion in the first semester of 2012. The turnaround in merchandise exports, together with minimal change in imports, contributed to the higher growth rate of the economy.

Electronics and semiconductor exports remained erratic but other commodities like transport and machinery (76%), processed food and beverages (12%), and chemicals (8%) improved.

Coconut exports fell 31% while sugar exports rose 6%. Fruit exports rose, particularly pineapple (42%), bananas (18%) and mangoes (6%). Coffee exports also rose by 61%.

Raw material imports, such as wheat (5%) and corn (128%) rose. Dairy product imports fell 9% while rice imports dropped by 30%.

The key markets for both exports and imports are Japan, USA and China.
The importation of consumer products continued at double-digit rates. The USA was a leading import supplier with $3.5B followed by Japan ($3.0B), and China ($2.7B).

The Philippines is now implementing the ASEAN Free Trade Area (AFTA) and ASEAN-China Free Trade Area. The country has signed the ASEAN-Korea Free Trade Area, Pakistan-Philippines Free Trade Agreement, and United States-Philippines Free Trade Agreement.

3.4 Foreign direct investments. The strong economic results and stable outlooks have renewed investor interest in the country. Portfolio investments have risen and perked up the Philippine stock market. The World Federation of Exchanges (WFE) listed the PSE as the third best performing broad market index in the first semester of 2012 and the best performing in the Asia-Pacific region.

Foreign direct investment (FDI) increased ten-fold in the last five years. The big prospects (worth at least US$ 1 billion each in investment) that have emerged include BHP Billiton’s nickel project in Davao, China Ocean Shipping Group’s shipping complex in Cavite, Hanjin Heavy Industry’s shipbuilding project in Subic, Sumitomo Metal Mining’s nickel project in Surigao,
Texas Instruments’ microchip plant in Clark, and Xstrata Copper’s copper project in South Cotabato. Many of the global business process outsourcing (BPO) players are steadily expanding their operations in the Philippines, which, coupled with increasing housing demand, fueled private construction to a growth rate of 25% in the third quarter of 2012.

Approved FDI reached PhP62.6 billion in the first semester of 2012, led by Japan (PhP22.3 billion), Netherlands (PhP12.1 billion) and the USA (PhP6.4 billion).

Investments primarily went into manufacturing, real estate, and administrative and support service activities.

Manufacturing received PhP47.4 billion of approved FDI (see Chart A8). Real estate had PhP3.6 billion while administrative and support services got PhP3.1 billion.

In the first semester of 2012, the bulk of total FDI applications at 79.1% were coursed through the
Table A6 Total approved FDI by promotion agency in PhP million during the first semester of 2011 and 2012

<table>
<thead>
<tr>
<th>Agency</th>
<th>Approved FDI</th>
<th>Percent to total</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority of the Freeport Area of Bataan (AFAB)</td>
<td>-</td>
<td>165.9</td>
<td>0.3</td>
</tr>
<tr>
<td>Board of Investments (BOI)</td>
<td>11,241.5</td>
<td>10,422.2</td>
<td>16.7</td>
</tr>
<tr>
<td>Clark Development Corp (CDC)</td>
<td>16,453.9</td>
<td>2,137.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Cagayan Economic Zone Authority (CEZA)</td>
<td>11.4</td>
<td>98.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Philippine Economic Zone Authority (PEZA)</td>
<td>34,445.4</td>
<td>49,477.0</td>
<td>79.1</td>
</tr>
<tr>
<td>Subic Bay Metropolitan Authority (SBMA)</td>
<td>161.2</td>
<td>273.1</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62,313.4</strong></td>
<td><strong>62,573.5</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Sources: NSCB

PEZA with pledges amounting to PhP49.5 billion (see Table A6). All promotion agencies registered increases except for the Clark Development Corporation (CDC) and BOI which suffered declines of 87.0% and 7.3%, respectively.

3.5 Fiscal performance and credit ratings. The Philippines continues to strengthen its external position with over US$79 billion in gross international reserves or the equivalent of more than one year in import cover. Fiscal deficit was still at PhP34 billion, giving the government more flexibility in its spending and other projects for the second semester of 2012 and 2013, an election year.

More importantly, consumer and business confidence improved markedly. The PSE has been growing at record levels and the major credit rating agencies gave successive upgrades and positive outlooks to the country’s economy. The Philippines is now just one rung below investment grade following Standard & Poor’s BB+ with stable outlook in July and Moody’s Ba2 with positive outlook in May.

3.6 Inflation. Inflation moderated to 3.0% in the first semester of 2012 compared to over 4.0% last year. Food price increases slowed down to below-average at 2%. There were higher price increases (see Chart A7) in clothing (4.4%), restaurants (3.2%), household furnishings (2.9%), and recreation (2.5%).

3.7 Exchange rates. Like other Asian currencies, the Philippine Peso has been strengthening against the US dollar. The average monthly peso-dollar rate improved from PhP43.31 per US$ in 2011
Table A7 Growth prospects, 2011-2013 in US$ and percentage

<table>
<thead>
<tr>
<th>Country</th>
<th>Income/cap</th>
<th>GDP, %</th>
<th>Inflation, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>2,500</td>
<td>6.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7,760</td>
<td>5.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>2,060</td>
<td>3.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>4,150</td>
<td>0.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>40,070</td>
<td>4.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1,160</td>
<td>5.9</td>
<td>5.7</td>
</tr>
<tr>
<td>China</td>
<td>4,270</td>
<td>9.2</td>
<td>8.5</td>
</tr>
<tr>
<td>India</td>
<td>1,330</td>
<td>6.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Korea</td>
<td>19,890</td>
<td>3.6</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Sources: NSCB

Chart A7 Consumer price index (CPI) by category, 2010-2012 first semester
to PhP 42.23 per US$ in 2012. With the global financial turmoil, the peso-dollar rate weakened from PhP43.62 per US$ in January to PhP41.04 per US$ by the end of 2012.

3.8 Economic prospects.
The World Economic Forum’s Competitiveness Report 2012-2013 cited “the Philippines as one of the countries showing the most improvement,” jumping 10 spots to the 65th position or upper half of the ladder. The country has achieved important strides in improving competitiveness with respect to its public institutions, the macroeconomic environment, and market size, among others. The country aims for 7%-8% GDP growth, which it has met during the third quarter of 2012. It has also set medium-term targets of 22% investment ratio, 1 million generated jobs per year, 2% deficit ratio by 2013, 16.6% poverty incidence by 2015, and a 6.8% unemployment rate and upper 30% ranking by 2016.

Priority areas include agriculture and fisheries, business process outsourcing, general infrastructure, semiconductors and electronics, as well as tourism. The plan involves stabilizing the macro environment, being self-sufficient in rice and food, investing in infrastructure and promoting education for priority areas.

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