# REVIEW OF OPERATIONS

Below is an analysis of results by individual company, classified within the Group's three main business areas.

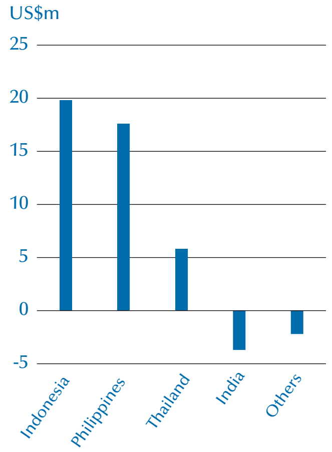
## CONTRIBUTION SUMMARY

| | Six months ended 30 June | | | |
|---|---|---|---|---|
| | Turnover | | Contribution to Group (loss)/profit[i] | |
| | **2001 US$m** | 2000 US$m | **2001 US$m** | 2000 US$m |
| **CONSUMER** | | | | |
| Indofood | **671.4** | 739.4 | **18.6** | 34.6 |
| Berli Jucker | **122.3** | 145.6 | **5.8** | 5.2 |
| Darya–Varia | **23.0** | 26.5 | **1.2** | 4.2 |
| | **816.7** | 911.5 | **25.6** | 44.0 |
| **TELECOMMUNICATIONS** | | | | |
| PLDT* | **–** | – | **21.9** | 8.7 |
| Smart[ii] | **–** | 80.5 | **–** | (9.0) |
| Escotel* | **–** | – | **(3.7)** | (5.5) |
| Infrontier | **–** | – | **(3.8)** | – |
| | **–** | 80.5 | **14.4** | (5.8) |
| **PROPERTY** | | | | |
| Metro Pacific | **87.8** | 163.7 | **(4.3)** | (0.7) |
| From continuing businesses | **904.5** | 1,155.7 | **35.7** | 37.5 |
| From disposed businesses[iii] | **–** | 95.7 | **1.6** | 8.0 |
| **FROM OPERATIONS** | **904.5** | 1,251.4 | **37.3** | 45.5 |
| Corporate overhead | | | **(6.3)** | (7.8) |
| Net finance charges | | | **(10.6)** | (11.7) |
| **RECURRING PROFIT** | | | **20.4** | 26.0 |
| Exchange losses | | | **(32.5)** | (63.3) |
| Gain on disposal and dilution of shareholdings less provision for investments | | | **–** | 87.7 |
| **(LOSS)/PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS** | | | **(12.1)** | 50.4 |

* *Associated companies*

*(i) After taxation and outside interests, where appropriate.*
*(ii) Merged with PLDT on 24 March 2000.*
*(iii) Represents SPORTathlon, First Pacific Bank and Savills plc, which were sold on 29 June 2000, 28 December 2000 and 12 March 2001, respectively.*

**Contribution from operations by country**



During a period of continued political uncertainty, declining regional exchange rates, and restrained consumer demand, First Pacific has returned a contribution from operations of US$37.3 million, down US$8.2 million against 2000's US$45.5 million.

This decline in profitability is largely a reflection of changes within the First Pacific Group. Approximately US$6.4 million of the contribution in 2000 was derived from SPORTathlon, First Pacific Bank and Savills plc, which were disposed in June 2000, December 2000 and March 2001 respectively. In addition, Infrontier, First Pacific's start-up company that offers business solutions, commenced operations in 2001, with start-up losses of US$3.8 million being recorded for the first time within contribution from operations.

The Group's operating results are denominated in local currencies – principally the rupiah, peso, and baht – which are translated and consolidated to give the Group's U.S. dollar denominated results. The depreciation of these currencies against the U.S. dollar is summarized below and illustrates continued weakness through to 30 June 2001.

| | **At 30 June 2001** | At 31 Dec 2000 | Six months change | At 30 June 2000 | One year change |
|---|---|---|---|---|---|
| Closing: | | | | | |
| Peso | **52.43** | 49.96 | -4.7% | 43.20 | -17.6% |
| Rupiah | **11,390** | 9,650 | -15.3% | 8,740 | -23.3% |
| Baht | **45.28** | 43.16 | -4.7% | 39.19 | -13.4% |
| Rupee | **47.04** | 46.72 | -0.7% | 44.67 | -5.0% |

| | **Six months ended 30 June 2001** | 12 months ended 31 Dec 2000 | Six months change | Six months ended 30 June 2000 | One year change |
|---|---|---|---|---|---|
| Average: | | | | | |
| Peso | **50.17** | 44.67 | -11.0% | 41.59 | -17.1% |
| Rupiah | **10,661** | 8,523 | -20.1% | 7,950 | -25.4% |
| Baht | **44.47** | 40.43 | -9.1% | 38.30 | -13.9% |
| Rupee | **46.77** | 45.07 | -3.6% | 43.96 | -6.0% |

The effect this has on the Group's U.S. dollar denominated results is to reduce the translated U.S. dollar value of local currency results. It is estimated that this has had an adverse impact on the June 2001 results of approximately US$11.1 million.

At the operational level, weaker local currencies increase the cost of imported raw materials which, unless these can be fully recovered through increased selling prices, has the effect of eroding margins. In addition, the servicing costs of foreign currency denominated debt are increased, and unrealized exchange gains or losses arising on the translation of monetary assets and liabilities are recognized in the profit and loss statement.

## CONSUMER

**Indofood**, a leading processed-foods group with operations throughout Indonesia, contributed a profit of US$18.6 million, down 46.2 per cent against the comparative of US$34.6 million.

The Group increased its interest in Indofood by eight per cent in December 2000, as a consequence of which, the Group's average shareholding for the first half of 2001 was 48.0 per cent, against 40.0 per cent for the comparative period.

The majority of Indofood's revenues are denominated in rupiah, which averaged Rupiah 10,661 to the U.S. dollar over the first six months of 2001, compared with Rupiah 7,950 to the U.S. dollar over the first six months of 2000.

Because of the weaker average rupiah exchange rate, the 9.2 per cent decline in U.S. dollar turnover, to US$671.4 million, masks an underlying 21.5 per cent increase in rupiah-denominated turnover to Rupiah 7,158.0 billion. With the exception of Baby Foods, all of Indofood's businesses increased turnover. The divisions of Instant Noodles, Flour, and Edible Oils contributed four-fifths of total turnover, with increased turnover from the divisions of Flour (up 39.7 per cent), Instant Noodles (up 13.4 per cent), Distribution (up 23.3 per cent) and Edible Oils (up 5.2 per cent).

Improved turnover was achieved through a mix of volume growth and price increases. However, gross and operating margins came under pressure as the cost of imported raw materials increased with the rupiah's decline, with operating margins further eroded by fuel costs, which almost doubled, and increases in salaries, electricity and transportation costs. As a result, Indofood's overall gross margin declined to 26.0 per cent (1H00: 31.5 per cent), while its operating margin was 14.4 per cent (1H00: 21.2 per cent).

Notwithstanding this, Indofood returned to paying dividends when a final 2000 dividend of Rupiah 18 per share, representing a payout ratio of 25 per cent, was approved during the period. This dividend, which was paid in July 2001, was the first dividend payment since 1997. Furthermore, approximately US$60 million of debt was repaid out of operating cash flows during the first half, reducing Indofood's debt to approximately US$628.8 million and further containing exposure to future exchange rate fluctuations. Approximately 77 per cent of Indofood's U.S. dollar debt is hedged and, as at 30 June 2001, Indofood's net debt was US$426.8 million.

In May 2001, Indofood announced its intention to buy back up to 10 per cent of its share capital, equating to 915,600,000 shares, by 30 November 2002. At the same time, Indofood management also introduced an employee stock ownership program as an incentive to motivate employees. Under this scheme Indofood can issue up to five per cent of its issued share capital – equating to 457,800,000 shares – to be made available for employee purchase.

Subsequent to 30 June 2001, Indofood repaid a further US$120 million of U.S. dollar denominated debt, and in August 2001 announced that it no longer intended to acquire a controlling stake in Singapore-listed Golden-Agri Resources Limited. As Indofood's plantations only provide between 40 per cent to 45 per cent of Indofood's crude palm oil needs, alternatives, for securing the supply required for the Edible Oils division, are under consideration.

**Berli Jucker**, a manufacturer, marketer and distributor of glass, consumer, technical products and imaging in Thailand, contributed a profit of US$5.8 million, up 11.5 per cent against the comparative of US$5.2 million. In September 2000, Berli Jucker reduced its equity base by 30 per cent, through dividending its retained earnings. As a consequence, return on equity has increased to 9.5 per cent (1H00: 7.1 per cent). The Group's interest in Berli Jucker has remained unchanged at 83.5 per cent.

The majority of Berli Jucker's revenues are denominated in baht, which averaged Baht 44.47 to the U.S. dollar over the first six months of 2001, compared with Baht 38.30 to the U.S. dollar over the first six months of 2000.

In U.S. dollar terms, Berli Jucker's turnover is down 16.0 per cent to US$122.3 million. However, this is a reflection of a weaker baht as turnover in baht terms is up 8.0 per cent as all divisions recorded stronger sales. Gross margins improved with Packaging & Consumer Products returning a gross margin of 28.3 per cent (1H00: 25.9 per cent), reflecting lower paper pulp and palm oil prices, while Technical Products & Imaging achieved a gross margin of 22.2 per cent (1H00: 15.3 per cent) following the deconsolidation of Thai Klinipro.

Operating margins also held up, with cost control measures improving Packaging & Consumer Products' operating margin to 9.9 per cent (1H00: 8.7 per cent), while Technical Products & Imaging returned an operating margin of 4.5 per cent (1H00: 3.7 per cent).

**Darya-Varia**, a leading fully integrated Indonesian health care company, contributed a profit of US$1.2 million, down 71.4 per cent against the comparative of US$4.2 million. The Group's interest in Darya-Varia remained unchanged at 89.5 per cent.

The majority of Darya-Varia's revenues are denominated in rupiah, which averaged Rupiah 10,661 to the U.S. dollar over the first six months of 2001, compared with Rupiah 7,950 to the U.S. dollar over the first six months of 2000.

This weakening of the rupiah has masked a 16.2 per cent improvement in Darya-Varia's rupiah denominated turnover, achieved off an aggressive marketing drive. The gross margin, at 45.9 per cent, was maintained at a similar level to the comparative period as operational efficiencies offset increased costs for imported raw materials due to the rupiah's weakening.

The operating margin declined to 12.8 per cent, principally due to a provision in respect of Stop Cold, Darya-Varia's leading cold preparation. This product has been withdrawn from the market in compliance with Department of Health regulations as, similar to other available cold medications, Stop Cold contains an ingredient called Phenylprophanolamin (PPA). The health authorities are concerned that PPA, if taken in large quantities, may cause adverse side effects. Darya-Varia, consistent with its commitment to sell only safe, high quality products, immediately withdrew the product and plans to re-introduce Stop Cold using an equally effective raw material that has no known adverse side effects.

## TELECOMMUNICATIONS

**PLDT**, the principal supplier of national and international telecommunications services in the Philippines, contributed a profit of US$21.9 million, up 151.7 per cent against the comparative of US$8.7 million.

As a consequence of a number of transactions – most notably the acquisition of Smart by PLDT in March 2000, and First Pacific's acquisition of Metro Pacific's eight per cent interest in PLDT in September 2000 – the Group's average shareholding for the first half was 24.6 per cent, against 20.3 per cent for the comparative period.

In the first half of 2001, 31.5 per cent of PLDT's operating revenues were received in U.S. dollars, while 36.4 per cent were U.S. dollar-linked as PLDT is able to adjust its monthly fixed line service rates by one per cent for every Peso 0.1 change in the U.S. dollar exchange rate. The peso averaged Pesos 50.17 to the U.S. dollar over the first half of 2001, compared with Pesos 41.59 for the first six months of 2000.

PLDT's EBITDA grew 26.7 per cent to Pesos 19.8 billion (1H00: Pesos 15.7 billion), on the back of a 24.6 per cent improvement in revenues to Pesos 36.7 billion (1H00: Pesos 29.5 billion), and improved operating efficiencies.

Wireless services posted a dramatic turnaround in 2001 as revenues surged from data services such as text messaging and enhanced services from Smart's new mobile portal service 'Smart zed'. As a result, combined Wireless revenues for the first half increased by 70.1 per cent to Pesos 12.0 billion (1H00: Pesos 7.1 billion). Now accounting for 32.7 per cent (1H00: 24.0 per cent) of PLDT's total revenues, Wireless is the driver of medium-term growth, underscoring PLDT's transition to a full-service telecommunications and multi-media group. Subscriber acquisition costs declined by approximately 63 per cent, this despite the doubling of subscribers to 5.0 million (1H00: 2.4 million) that secured Smart and Piltel some 58 per cent of the cellular market by 30 June 2001. Around 93 per cent of subscribers are on prepaid plans, while approximately 4.4 million (1H00: 1.3 million) subscribers are for GSM services. Having together added 280,000 GSM subscribers, on average each month, Smart and Piltel also maintained their leadership in the GSM market with a combined market share of approximately 56 per cent.

PLDT's Fixed Line network, which platforms a wide range of PLDT's fixed, cellular, cable and internet products and services, added 90,903 (1H00: 57,717) new subscribers, net of churn, during the first half of 2001. PLDT better managed churn by achieving higher reconnections of previously disconnected lines and, as at 30 June 2001, the PLDT Group had 2,106,211 (1H00: 1,963,711) fixed line subscribers. This increase of 142,500 subscribers, or 7.3 per cent, reflects organic growth as well as growth through acquisition. PLDT has approximately 67 per cent of the fixed line market, with the nearest competitor having approximately a 13 per cent market share.

PLDT's total International Long Distance call volume grew by 40.5 per cent to 1,266.5 million billed minutes in the first half of 2001. Inbound call volume grew by 41.6 per cent to 1,185.9 million billed minutes, while outbound traffic increased by 26.3 per cent to 80.6 million billed minutes. However, these volume increases were insufficient to offset the continued decline in international settlement rates for inbound international calls, and successive reductions in direct dialing rates for outbound international calls. As a result, peso revenues declined by 3.7 per cent to Pesos 6.4 billion, from Pesos 6.7 billion for the same period of 2000.

National Long Distance recorded 1,488.7 million billed minutes, down 6.6 per cent, with revenues down 17.7 per cent to Pesos 4.5 billion. This decline was largely attributable to rate reductions implemented to enhance competitiveness and a change in call mix such that more calls are subject to revenue sharing with other carriers.

Data and Other Services, the driver of PLDT's future growth, recorded a 78.2 per cent increase in revenues to Pesos 2.3 billion, with this business now contributing six per cent (1H00: four per cent) of PLDT's consolidated peso revenues. Strong demand for domestic and international bandwidth underpinned this growth as a range of value-added and broadband services were offered off PLDT's fiber optic backbone. Technological upgrades have evolved PLDT's infrastructure to a new packet-switched and Internet-based network offering faster, improved transmission of voice, video and data. In addition, digital subscriber line technology, which provides high-speed data transfer over copper lines, is already available in Metro Manila and Cebu and is progressively being introduced elsewhere.

In June 2001, PLDT concluded the debt restructuring of Piltel. PLDT's interest in Piltel has now decreased to 45.3 per cent and as such, Piltel is no longer treated as a consolidated subsidiary, but as an affiliate of PLDT.

**Escotel**, a New Delhi-based GSM cellular telephone services provider, contributed a loss of US$3.7 million, a 32.7 per cent improvement against the comparative loss of US$5.5 million. The Group's interest in Escotel remained unchanged at 49.0 per cent.

Escotel's revenues are denominated in rupees, which averaged Rupee 46.77 to the U.S. dollar over the first six months of 2001, compared with Rupee 43.96 to the U.S. dollar over the first six months of 2000.

Escotel recorded a maiden operating profit of US$2.9 million. This achievement was underpinned by strong growth in subscriber revenues despite a decline in ARPUs as subscribers increasingly use prepaid plans. As at the end of June 2001, Escotel had 333,242 subscribers, up approximately 93 per cent from June 2000.

In March 2001, Escotel put in place five-year financing when it refinanced US$75.0 million of offshore debt and secured a domestic debt facility equivalent to approximately US$112 million. These facilities enabled the repayment of short-term debt, and provide the funds for network enhancements necessary to support Escotel's growing subscriber base.

**Infrontier**, First Pacific's wholly-owned start-up offering business solutions in both hosted and traditional environments, recorded a start-up loss of US$3.8 million in its first period of commercial operations.

Infrontier offers business solutions that address all aspects of supply chain management including logistics, asset utilization, warehousing and manufacturing processes, sales automation, and demand planning and forecasting. In addition, Infrontier offers wireless applications that enable businesses and consumers to communicate and transact via a wireless environment. In support of these core businesses, Infrontier has a team of experienced and knowledgeable professionals who assist clients in the development, integration, implementation, and maintenance phases, and can also provide the technology infrastructure necessary to develop, manage and host client applications.

Infrontier recorded its first revenues in July 2001.

## PROPERTY

**Metro Pacific**, which principally holds Philippine property assets, contributed a loss of US$4.3 million, compared with a loss of US$0.7 million recorded over the first six months of 2000. The Group's interest in Metro Pacific remained unchanged at 80.6 per cent.

Metro Pacific's revenues are denominated in pesos. The peso averaged Pesos 50.17 to the U.S. dollar over the first half of 2001, compared with Pesos 41.59 for the year-ago period.

Metro Pacific's principal property asset is its 69.6 per cent interest in Bonifacio Land Corporation (BLC). BLC holds a 55.0 per cent interest in Fort Bonifacio Development Corporation (FBDC), which is developing, in stages, 150 hectares of land in the former military base, Fort Bonifacio.

The decline in turnover and operating profit recognized from Fort Bonifacio is primarily due to the completion of the horizontal development of Big Delta in April 2000. Revenues in respect of Pesos 28.4 billion worth of land sales made in 1996 were recognized over the period of Big Delta's development. By April 2000, when the project was completed on schedule and below budget, all revenues and profits on these 1996 land sales had been recognized.

A small land sale was concluded in June 2001, and Metro Pacific is confident of securing further land sales in the second half. Alternative land use opportunities continue to be sought by offering building leases, which average five years, and land leases, which range between 25 and 50 years, to Bonifacio Global City locators. In addition to generating short and medium term cash flows, these establishments draw people to the Bonifacio Global City to fulfill their business, entertainment, shopping or residential needs, which is important for developing the project's overall critical mass.

Work has commenced on the horizontal development of Expanded Big Delta, an area covering 54 hectares to the north and west of Big Delta. The first phase of Expanded Big Delta is substantially complete and, together with Big Delta, these areas represent approximately 75 per cent of the land under development by FBDC.

Bonifacio Ridge, FBDC's first residential project, was 31 per cent complete by the end of June 2001, and was officially topped-out on 2 July 2001, at which time 70 per cent of the development's 288 units were sold. New bars and restaurants are scheduled to open at The Fort, while S&R Price, a membership-shopping club, opened in April 2001. The Bonifacio Global City's first business tenants will shortly move into The Hatchasia GlobalCity Centre, and work continues on the gas and retail plaza, Bonifacio StopOver, scheduled to open in September. In July, St. Luke's Medical Center, the Philippines' foremost provider of medical services, signed a 50-year extendible long-term lease arrangement for a 1.6-hectare medical complex to be located on 32nd Street.

In May 2001, BLC successfully refinanced Pesos 3.05 billion of long-term commercial papers with a new Pesos 2.1 billion fully secured seven-year facility. While in June 2001, BLC announced its intention to sell its development rights in respect of the northern central business district of the Bonifacio Global City. This initiative will accelerate the advancement of the Bonifacio Global City's undeveloped areas and allow Metro Pacific to concentrate on its ongoing and future vertical developments within Big Delta and Expanded Big Delta. Interested parties are currently preparing their submission bids, and it is anticipated that this process will be concluded by late September 2001.

Pacific Plaza Towers recorded improved turnover and operating profit as unit sales continued. As at 30 June 2001, some 283 of the development's 393 units had been sold, with residents now occupying 42 units.

Metro Pacific's remaining property asset, Landco, recorded reduced turnover and operating profit as key developments, Punta Fuego and Ridgewood Park, have now been sold. Landco plans to launch four new projects this year to enhance medium-term revenue streams.

Negros Navigation (Nenaco) returned improved peso turnover and operating profit as price increases introduced in 2000 and efforts to streamline Nenaco's operations took effect. In June 2001, in order to further position Metro Pacific as a company focused on property, the board of Metro Pacific approved a proposal to dividend its interest in Nenaco to the shareholders of Metro Pacific, including First Pacific. This transaction is subject to certain creditor and regulatory approvals and it is anticipated to conclude by year-end.