

# Managing Director and Chief Executive Officer's Letter



My Fellow Shareholder:

Looking back at 2003, I am struck by the word "transformation". While it may not seem readily apparent, a transformation is occurring throughout First Pacific, from the Head Office level throughout each of our businesses. It is the purpose of my letter this year to distill for you the salient changes taking place and provide clarity on the vision and strategy that will guide us moving forward.

**Year of Accomplishment.** I am proud of the achievements made last year: doubling of our attributable net profit to US\$81.5 million, reduction and refinancing of parent and subsidiary debts, and the market leadership that our core investments of Indofood and PLDT continue to demonstrate. Our team at both the parent and subsidiary levels is more unified than ever and more in agreement on the path ahead.

Our achievements last year are wholly in line with the strategy that I described in my letter to you last year. Under the working title of "Direction, Decisions" our strategy seeks to achieve three primary objectives: clarity in First Pacific's underlying

principles and strategic direction; stability in First Pacific's financial position; and cohesion in First Pacific's internal relationships.

**Clarity of Vision.** Structurally, financially and operationally, First Pacific is undergoing a methodic evolution. We have learned valuable lessons from the recent years. Paramount among them is focus. Indeed focus is the answer I give to those who ask when – or how – will First Pacific return to its former days of rapid deal-making.

Our vision today is simple: First Pacific is committed, at all levels, to building a regionally focused, value-creating company that owns leading companies in two primary growth sectors, Consumer and Telecoms.

I believe the era of rapid deal churn for most conglomerates is over. At First Pacific we possess two strong market-leading businesses, with strong growth potential. Both are superbrands in their respective markets. Both have strong, underlying financials. Both have a number of domestic and international expansion growth opportunities available.

Our mission is also our executing strategy for our vision: First Pacific will continue to be an active management investor, constantly seeking to enhance, create and grow value for the benefit of our shareholders.

The simple fact is that we have never been just a holding company. Our value-added active management approach towards our assets is what differentiates us from the pack. Our investment philosophy has always differed in this regard – First Pacific is not merely a portfolio steward whose officers only attend the occasional board meeting. Throughout our history, in every investment of note,

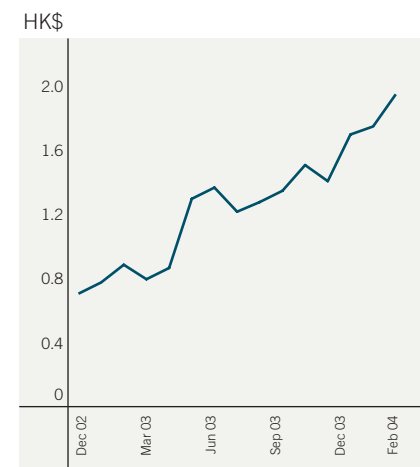
the means by which we have generated value for our shareholders is by placing key managers throughout our assets. It is for example, the sole reason why I relocated to Manila when we acquired PLDT.

First Pacific's active management investment approach will remain – as it has been since our founding in 1981 – our guiding philosophy. Frankly, I believe it is time that the market recognize this for the unique value it offers, and reflect that in our share price.

**Financial Stability.** First Pacific's present and improving fundamentals underscores our vision and mission. PLDT's performance last year was at the very least, stellar. Our projections are that PLDT will continue to grow at a healthy clip for some time, and the Philippine cellular market continues to defy conventional assumptions about penetration ceilings.

At the head office level the 17.5 per cent improvement in Indofood's dividend payments are evidence of its ability to focus on cost reductions and maintain market leadership. With dividend flow expected to begin from

## First Pacific Share Price Performance



## Managing Director and Chief Executive Officer's Letter

PLDT next year First Pacific's cash position will further strengthen. The disposal of our Escotel investment will also be cash accretive in 2004 – with the regulatory changes occurring in the Indian telecoms market, we believe that the resources we had committed there can be put to better use elsewhere.

It is important to underscore the significant de-leveraging progress from the First Pacific to subsidiary levels realized last year. The July 2003 issuance of a US\$115 million secured bond extended our refinancing window for a further 3 years. The full repayment of the US\$90 million loan principal owed by Metro Pacific to our wholly-owned subsidiary Larouge B.V. is evidence of our commitment to meet our debt obligations, no matter the emotional price we may have to pay. Both accomplishments have fundamentally resolved any material concerns regarding Head Office debt.

A significant de-leveraging effort continues at the operational level, improving subsidiary balance sheets and helping to improve our NAV discount, which we continue to believe is unwarranted at present levels. We will also continue to keep costs in line; reductions of non-essential head office staff last year, reduced overhead by 4.4 per cent and we believe there is room for further reduction going forward.

**Cohesion.** At the time, I highlighted this as an important objective, considering the undue attention on First Pacific's internal affairs at the start of last year. I believe that today, all that needs to be said in this regard is this: for those of you who have been long familiar with us, the First Pacific story regarding our people is as simple as is our investment philosophy: we are a tightly connected, horizontally

managed operation. This will not change. I can assure all of our stakeholders that adjustments made in the previous year will ensure this remains the case for a long time to come.

**The Path Ahead.** Our challenge this year and moving ahead is straightforward: continually strive to further improve performance from both Indofood and PLDT in order to pave the way for future acquisitions and new growth.

As previously discussed, it is our intention to not just rely upon organic growth as a future value driver. We will seek new opportunities. Despite our present head-office cash position there exists a number of avenues to pursue intelligent investments. Should conditions allow, it is my hope that this time next year you will have solid evidence of our new growth.

To that end, I believe it may help in articulating further the metrics by which we presently and will continue, to examine new growth opportunities. We always ask two central questions: Does the investment possess significant value enhancement potential? Can we be assured of management control in order to extract value, in the First Pacific way?

Affirmative answers to both answers are critical, and should give you insight into the "First Pacific Approach". Our inherent value as a company – and an investment opportunity for our shareholders and other investors – rests on our ability to understand the opportunities and risks of an investment – even while the market may not at the time. Through our active management approach we structurally improve the investment's operations, management and strategy, with the resulting effect of defying

expectations and produce substantial results. The way that we accomplish our goals in this regard is through innovative and dynamic leadership, grounded in strictest corporate governance principles.

**Awards.** In closing I would like to briefly mention the citations received last year from independent third-parties. PLDT was named Overall Best Managed Company by AsiaMoney Magazine. Indofood ranked the No. 1 best managed Indonesian company by the Far Eastern Economic Review. First Pacific also received a Bronze medal in recognition of our strong financial reporting, from the Hong Kong Management Association.

These accolades, coupled with the improvement in our share price over the last year – which we still regard as considerably undervalued at present levels – are testament to the transformation taking place at First Pacific. The process of evolution and change for us is only set to accelerate. There is no road back.

Finally, I would like to thank you for your confidence and support as we more confidently assert control of our future. The best, I am certain, is yet to come.

Sincerely,

**MANUEL V. PANGILINAN**  
*Managing Director  
 and Chief Executive Officer*

1 March 2004