Financial Review

CONTENTS

LIQUIDITY AND FINANCIAL RESOURCES

Net Debt and Gearing

(A) Head Office Net Debt

The decrease in net debt is mainly attributable to the partial repayment of its bank loan with the proceeds from Metro Pacific's sale of equity interest in BLC. The Head Office's borrowings at 31 December 2003 comprise Bonds of US$112.4 million (net of US$0.6 million unamortized issuance discount) maturing in July 2006 and a bank loan of US$55.0 million, which is repayable in September 2006.

Changes in Head Office Net Debt

US$ millions	Borrowings	Cash and cash equivalents	Net debt
At 1 January 2003	187.4	(35.3)	152.1
Movement	(20.0)	(35.2)	(55.2)
At 31 December 2003	**167.4**	**(70.5)**	**96.9**

Head Office Cash Flow

US$ millions	2003	2002
Net cash outflow from operating activities	**(9.5)**	(13.4)
Investments	**(17.6)**	(7.8)
Expenses on disposal	**(2.6)**	(5.5)
Financing activities		
– Net bonds issued/(repayment)	**112.4**	(331.7)
– Repayment of inter-company loan by Metro Pacific, net[(i)]	**88.7**	–
– Net bank loan (repayment)/drawdowns	**(132.4)**	187.4
– Loan facility expenses	**(3.8)**	(8.2)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**35.2**	(179.2)

(i) Repayment of US$90.0 million net of US$1.3 million loan to Metro Pacific made during 2003.

Financial Review

(B) Group Net Debt and Gearing

An analysis of net debt and gearing for consolidated and associated companies follows.

Consolidated

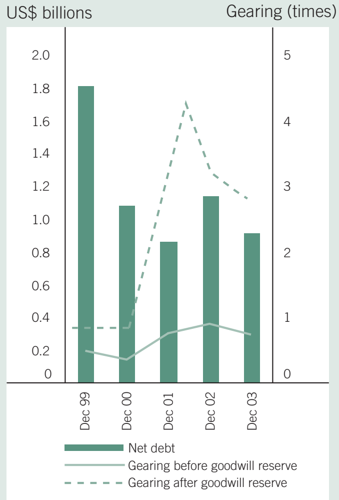
US$ millions	**Net debt [i] 2003**	**Net assets/ (liabilities) 2003**	**Gearing (times) 2003**	Net debt [i] 2002	Net assets 2002	Gearing (times) 2002
Head Office	**96.9**	**813.4**	**0.10x**	152.1	726.5	0.15x
Indofood	**713.3**	**521.5**	**1.37x**	750.9	463.8	1.62x
Metro Pacific	**97.5**	**(32.7)**	**–**	233.7	139.0	1.68x
CONSOLIDATED BEFORE GOODWILL RESERVE	**907.7**	**1,302.2**	**0.70x**	1,136.7	1,329.3	0.86x
Goodwill reserve	**–**	**(972.2)**	**–**	–	(976.4)	–
CONSOLIDATED AFTER GOODWILL RESERVE	**907.7**	**330.0**	**2.75x**	1,136.7	352.9	3.22x

Associated

US$ millions	**Net debt 2003**	**Net assets/ (liabilities) 2003**	**Gearing (times) 2003**	Net debt 2002	Net assets/ (liabilities) 2002	Gearing (times) 2002
PLDT	**2,532.9**	**1,710.8**	**1.48x**	2,964.7	1,678.4	1.77x
Escotel	**161.8**	**(93.9)**	**–**	183.8	(36.3)	–

(i) *Includes restricted cash and pledged deposits.*

Net Debt and Gearing



- Head Office gearing decreased as a result of a partial repayment of a bank loan with the proceeds from Metro Pacific's sale of equity interest in BLC.
- Indofood gearing declined as profits and a stronger rupiah enhanced net assets.
- Metro Pacific's net debt decreased principally as a result of deconsolidation of BLC and other settlements through transfer of property assets to creditors. Metro Pacific changed from positive net assets position to net liabilities position mainly because of the deconsolidation of BLC.
- PLDT's gearing declined as strong free cash flows were used to reduce debts.

Maturity Profile

The maturity profile of consolidated debt and associated companies' debt follows.

Consolidated

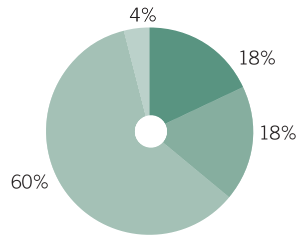
US$ millions	**2003**	2002
Within one year	**207.4**	605.7
One to two years	**209.6**	106.7
Two to five years	**703.3**	586.2
Over five years	**43.0**	64.3
TOTAL	**1,163.3**	1,362.9

The lengthening of the debt maturity profile principally reflects Head Office's repayment/refinancing of its US$187.4 million short-term bank loan and a lengthening of the profile of Indofood's debt during the year. In particular, US$89.3 million of Indofood's short-term debts with high interest costs were refinanced through Rupiah 1.5 trillion (US$177.2 million) five-year Rupiah-bonds.

Associated

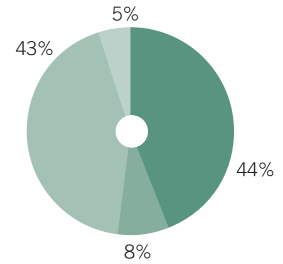
US$ millions	PLDT **2003**	PLDT 2002	Escotel **2003**	Escotel 2002
Within one year	**466.3**	374.9	**63.2**	30.6
One to two years	**543.3**	470.7	**68.5**	54.6
Two to five years	**1,098.9**	1,416.6	**31.6**	100.1
Over five years	**771.6**	907.0	–	–
TOTAL	**2,880.1**	3,169.2	**163.3**	185.3

Maturity Profile of Consolidated Debt 2003



	US$ millions
Within 1 year	207.4
1-2 years	209.6
2-5 years	703.3
Over 5 years	43.0
Total	**1,163.3**

Maturity Profile of Consolidated Debt 2002



	US$ millions
Within 1 year	605.7
1-2 years	106.7
2-5 years	586.2
Over 5 years	64.3
Total	**1,362.9**

Financial Review

FINANCIAL RISK MANAGEMENT

Foreign Currency Risk

(A) Company Risk

As the Head Office debt is currently denominated in U.S. dollars, foreign currency risk relates mainly to the receipt of cash dividends and to the translation of non-U.S. dollar denominated investments in subsidiary and associated companies.

The Company actively reviews the potential benefits of hedging based on forecast dividend flows. However, the Company does not actively seek to hedge risks arising on the translation of foreign currency denominated investments due to the non-cash nature of such investments and the high costs associated with such hedging. Accordingly, First Pacific is exposed to the impact of foreign currency fluctuations on the translated U.S. dollar value of its foreign currency denominated investments.

With the exception of the Head Office and Escotel, the principal components of the Company's NAV relate to investments denominated in the peso or rupiah. Accordingly, any change in these currencies, against their respective 31 December 2003 exchange rates, would have an effect on the Company's NAV in U.S. dollar terms.

The following table illustrates the estimated effect on the Company's adjusted NAV for a one per cent change of the peso and rupiah against the U.S. dollar.

Company	Effect on adjusted NAV[i] US$millions	Effect on adjusted NAV per share HK cents
PLDT	7.2	1.77
Indofood	4.2	1.02
Metro Pacific	0.1	0.03
TOTAL	**11.5**	**2.82**

(i) The basis of valuation at 31 December 2003 are set out on page 26.

(B) Group Risk

The Group's operating results are denominated in local currencies, principally the peso and rupiah, which are translated and consolidated to give the Group's results in U.S. dollars.

Net Debt by Currency

It is often necessary for operating entities to borrow in U.S. dollars, which results in the risk of a translation impact on local currency results. A summary of consolidated and associated companies' net debt by currency follows.

Consolidated

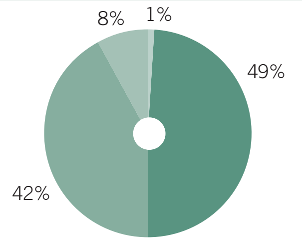
US$ millions	US$	Peso	Rupiah	Others	Total
Total borrowings	572.3	101.8	488.9	0.3	**1,163.3**
Cash and cash equivalents[(i)]	(92.9)	(4.5)	(151.5)	(6.7)	**(255.6)**
NET DEBT	479.4	97.3	337.4	(6.4)	**907.7**
REPRESENTING:					
Head Office	103.8	(0.2)	–	(6.7)	**96.9**
Indofood	375.6	–	337.4	0.3	**713.3**
Metro Pacific	–	97.5	–	–	**97.5**
NET DEBT	479.4	97.3	337.4	(6.4)	**907.7**

Associated

US$ millions	US$	Peso	Yen	Rupee	Total
PLDT	2,426.1	(86.7)	193.5	–	**2,532.9**
Escotel	63.1	–	–	98.7	**161.8**

(i) Includes restricted cash and pledged deposits.

Analysis of Total Borrowings by Currency



	US$millions
US$	572.3
Rupiah	488.9
Peso	101.8
Others	0.3
Total	**1,163.3**

Details of changes in Head Office net debt are set out on page 19.

Indofood hedges its U.S. dollar debt through foreign currency swap agreements, export revenues and U.S. dollar deposits. At the end of 2003, Indofood's US$375.6 million of U.S. dollar denominated net borrowings were partly hedged through foreign currency swap agreements totaling US$310.0 million, which mature on various dates in 2005 and 2007.

PLDT carries U.S. dollar debt primarily because international vendors of telecommunications equipment quote prices and require payment in U.S. dollars. In addition, large funding requirements often cannot be satisfied in local currency due to inherent constraints within the financial markets in the Philippines. As a result, financing frequently needs to be sourced from the international capital market, principally in U.S. dollars. Although it is not possible to hedge significant U.S. dollar balances in the Philippines, PLDT has actively hedged approximately 41 per cent of its U.S. dollar net borrowings. In addition, substantial revenues of PLDT are either denominated in, or linked to, the U.S. dollar. For example, PLDT's U.S. dollar denominated international inbound revenue accounted for approximately US$191.3 million or 10.9 per cent of PLDT's total revenues in 2003. In addition, under certain circumstances, PLDT is able to adjust the monthly recurring rates for its fixed line service by one per cent for every Peso 0.1 change in the U.S. dollar exchange rate.

Escotel carries U.S. dollar borrowings for reasons similar to PLDT. Approximately 33 per cent of its U.S. dollar net debt has been hedged into rupees.

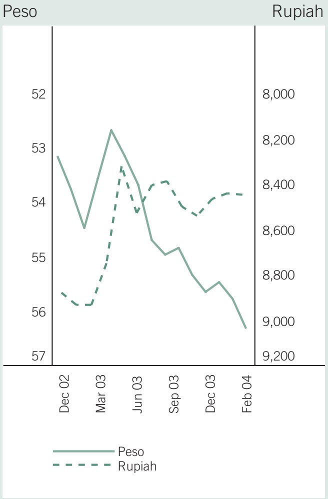
Financial Review

As a result of unhedged U.S. dollar net debt, the Group's results are sensitive to fluctuations in U.S. dollar exchange rates. The following table illustrates the estimated effect on the Group's reported profitability for a one per cent change in the principal operating currencies of subsidiary and associated companies. This does not reflect the indirect effect of fluctuating exchange rates on input costs at the operating company level.

US$ millions	Total US$ exposure	Hedged amount	Unhedged amount	Profit effect of 1% currency change	Group profit effect[i]
PLDT	2,426.1	983.1	1,443.0	14.4	2.4
Indofood	375.6	310.0	65.6	0.7	0.2
Escotel	63.1	20.7	42.4	0.4	0.1
Head Office[ii]	103.8	–	103.8	–	–
TOTAL	**2,968.6**	**1,313.8**	**1,654.8**	**15.5**	**2.7**

(i) *Net of tax effect.*
(ii) *As the Group reports its results in U.S. dollars, unhedged U.S. dollar debt at the Head Office does not give rise to any significant exchange exposure.*

Peso and Rupiah Closing Rates Against the U.S. Dollar



Interest Rate Risk

The Company and its operating entities are exposed to changes in interest rates to the extent that they impact the cost of variable interest rate borrowings. An analysis of this follows, together with details for associated companies.

Consolidated

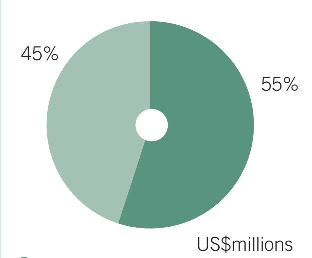
US$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents[i]	Net debt
Head Office[ii]	167.4	–	(70.5)	96.9
Indofood[iii]	325.3	568.8	(180.8)	713.3
Metro Pacific	25.7	76.1	(4.3)	97.5
CONSOLIDATED	**518.4**	**644.9**	**(255.6)**	**907.7**

Associated

US$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents	Net debt
PLDT	1,860.3	1,019.8	(347.2)	2,532.9
Escotel	123.6	39.7	(1.5)	161.8

(i) *Includes restricted cash and pledged deposits.*
(ii) *In September 2003, a wholly-owned subsidiary of the Company entered into an interest rate swap agreement which effectively changed its US$55.0 million bank loan from a LIBOR-based variable interest rate to fixed interest rate.*
(iii) *In January 2003, Indofood entered into an interest rate swap agreement which effectively changed its US$280.0 million Euro-bonds from fixed interest rate to a LIBOR-based variable interest rate.*

Interest Rate Profile



	US$millions
Floating	644.9
Fixed	518.4
Total	**1,163.3**

The following table illustrates the estimated effect on the Group's reported profitability for a one per cent change in average annual interest rates.

US$ millions	Variable interest rate borrowings	Profit effect of 1% change in interest rates	Group profit effect[(i)]
Indofood	568.8	5.7	2.1
Metro Pacific	76.1	0.8	0.4
PLDT	1,019.8	10.2	1.7
Escotel	39.7	0.4	0.1
TOTAL	**1,704.4**	**17.1**	**4.3**

(i) Net of tax effect.

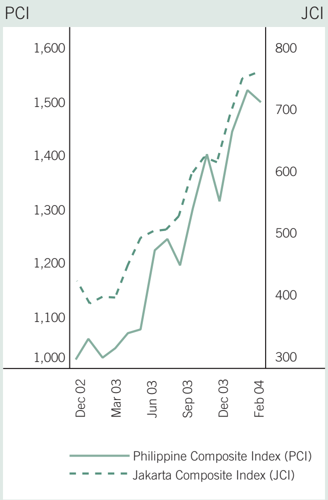
Equity Market Risk

As the majority of the Company's investments are listed, the Company is exposed to fluctuations in the equity market values of such investments. In addition, the value of the Company's investments may be impacted by sentiment towards specific countries.

First Pacific's listed investments are located in the Philippines and Indonesia. Accordingly, in addition to operating factors within the Company's control, the Company also has an equity market risk in respect of general investor sentiment towards these countries. Changes in the stock market indices of the Philippines and Indonesia is summarized as follows:

	Philippine Composite Index	Jakarta Composite Index
At 31 December 2002	1,018.4	425.0
At 31 December 2003	1,442.4	691.9
Increase during 2003	41.6%	62.8%
At 1 March 2004	1,483.2	761.1
Increase over 2004 to 1 March 2004	2.8%	10.0%

Stock Market Indices



Financial Review

ADJUSTED NAV PER SHARE

There follows a calculation of the Group's underlying worth, as assessed by calculating the adjusted NAV of each of the Group's listed investments based on quoted share prices applied to the Company's economic interest.

US$ millions	Basis	1 March 2004 Adjusted NAV	31 December 2003 Adjusted NAV	31 December 2003 Invested capital[i]
PLDT		**710.0**	720.7	1,240.7
Indofood		**441.4**	415.5	706.6
Metro Pacific	(ii)	**15.9**	16.2	648.8
Escotel	(iii)	**15.4**	15.4	79.7
Head Office – Net debt		**(112.0)**	(96.9)	(96.9)
TOTAL VALUATION	(iv)	**1,070.7**	1,070.9	2,578.9
NUMBER OF ORDINARY SHARES IN ISSUE (millions)		**3,186.0**	3,186.0	3,186.0
Value per share				
– U.S. dollar		**0.34**	0.34	0.81
– HK dollars		**2.62**	2.62	6.31
Company's closing share price (HK$)		**1.94**	1.69	1.69
Share price discount to HK$ value per share (%)		**26.0**	35.5	73.2

(i) Before impairment provisions effected in 2001.
(ii) Adjusted NAV is based on Metro Pacific's net book value as per its balance sheet at 31 December 2003 applied to the Company's economic interest.
(iii) Adjusted NAV is based on consideration, before expenses, for the proposed sale of the Group's entire 49 per cent interest in Escotel to Idea Cellular Limited.
(iv) No value has been attributed to the Group's investment in Mobile-8 and Infrontier.

Share Price vs Adjusted NAV Per Share