



# FIRST PACIFIC AN ACTIVE MANAGEMENT INVESTOR

## MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S LETTER

### My Fellow Shareholder:

The year just passed saw First Pacific stronger and more able to manage the complexities of its various businesses.

Indeed, 2004 marks a year wherein your Company closed another cycle of transformation and reinvention. The two primary markets where our businesses are located, Indonesia and the Philippines, have been particularly challenged in moving past their respective economic and political crises in recent years, and the new stability in both of these countries sets the stage for the next chapter in our own history.

In the Philippines for example, PLDT continues to grow at a rapid pace, consolidating its dominant market positions in both the Fixed Line and Wireless telecommunications sectors. In fact, as of this writing more than 20 million Filipinos - nearly one in four of all Filipino citizens - are either a PLDT Fixed Line, Wireless or Data subscriber. This tremendous growth, from the mere two million Fixed Line subscribers PLDT had when we first invested in it in late 1998, underlies First Pacific's ability to grow and manage an investment, even during the volatility of recent years.

Metro Pacific is also nearing the conclusion of its self-administered, four year period of debt reduction and corporate rehabilitation, and is now positioned for new growth.

In Indonesia, Indofood sustained sales levels, and improved its key metrics of gross and operating margins in the face of fierce market competition. Indofood is achieving substantial progress on its business restructuring and debt management programs, a process initiated last year. This, coupled with the strong brand equity for many of Indofood's products, should be factors that can positively influence Indofood's performance in 2005 and beyond.

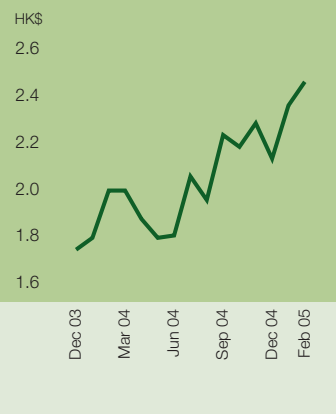
Consequently, First Pacific's ability to achieve results in these two markets over the past year caused the 81.5 per cent improvement in our attributable net profit, from US\$74.1 million in 2003 to US\$134.5 million in 2004. This result includes the gain of US\$17.1 million from our disposal of a 49 per cent

interest in Escotel. We sold our interest in Escotel mainly because the market environment for that investment had become too adverse for growth, and we saw little prospect of growing that business into a highly scalable one.

Overall, turnover decreased slightly to US\$2,054.6 million, reflecting depreciation of the rupiah vis-à-vis the U.S. dollar and increased competition for Indofood. However, recurring profit increased 57 per cent to US\$127.4 million. Shareholders' equity multiplied nearly five times to US\$294.6 million compared with US\$51.1 million in 2003, all principally attributable to our improved net profit, the restatement of certain exchange and goodwill reserves, and the Escotel disposal. First Pacific's net debt position also improved during the year, and our consolidated gearing ratio as of year-end 2004 stood at 1.29 times versus 2.12 times in 2003.

These substantially improved results enabled your Company to raise US\$199 million in January 2005 from the issuance of five-year zero-coupon exchangeable notes, additional resources by which we can explore opportunities with significant growth, in line with our principal strategic objectives across the region.

**First Pacific  
Share Price Performance**



We are exploring new businesses by initially asking two key questions: Does the investment possess significant value enhancement potential? Can we be assured of management control in order to extract value? It is important to be able to readily and confidently answer both. For while positive growth momentum has returned to Asia, the appetite for risk remains relatively cautious, and investment cycles are shorter and more volatile than before.

We believe that our present investment portfolio will be able to provide robust answers to these questions. In Indonesia, we are placing considerable currency in management's present business re-examination and re-engineering, and look to recent developments such as the February 2005 joint venture agreement with Nestle S.A. as evidence that considerable growth potential exists. At Metro Pacific, we are examining potential opportunities for First Pacific in the Philippines' infrastructure sector.

In the telecommunications industry, through our PLDT and Smart franchises, we have proven there can be significant potential for value creation in the emerging market telecoms sector. We have also shown that a certain business model - a vertically integrated, convergent one, with substantial scale and multiple technology platforms - provides the greatest revenue diversity, growth dynamics, and competitive strength.

I would like to close my report by noting that next year, 2006, will mark the 25th anniversary of First Pacific. Throughout the nearly two-and-a-half decades that just passed, we have written a colorful history, from our beginnings as a modest financial services firm called Overseas Union Finance Limited. Today, First Pacific is again refocused and repositioned to begin a new cycle of value creation.

Thank you most sincerely for your support.

**MANUEL V. PANGILINAN**  
*Managing Director and Chief Executive Officer*  
 14 March 2005