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## Liquidity and Financial Resources

### Net Debt and Gearing

#### (A) Head Office Net Debt

The increase in net debt is mainly attributable to the payments for additional investments of 1.1 per cent interest in PLDT (US\$53.7 million) and the acquisition of a 25.0 per cent interest in Level Up. The Head Office's borrowings at 31 December 2005 comprise Exchangeable Notes of US\$193.1 million (with a face value of US\$199.0 million) due in January 2010, secured bonds of US\$107.3 million (with a face value of US\$108.0 million) due in July 2006 and a bank loan of US\$49.3 million (with a face value of US\$50.0 million) due in November 2012.

#### Changes in Head Office Net Debt

US\$ millions	Borrowings	Cash and cash equivalents	Net debt
At 1 January 2005	144.6	(41.3)	103.3
Movement	205.1	(155.8)	49.3
<b>At 31 December 2005</b>	<b>349.7</b>	<b>(197.1)</b>	<b>152.6</b>

## Head Office Cash Flow

US\$ millions	2005	2004
Net cash inflow/(outflow) from operating activities	27.6	(8.7)
Net tax paid	–	(11.1)
Investments	(72.9)	(5.0)
Net proceeds on disposal	–	18.6
Financing activities		
– Issue of Exchangeable Notes, net of expenses	193.4	–
– Net borrowings/(repayments)	17.4	(23.0)
– Repurchase of secured bonds	(5.1)	–
– Dividend paid	(4.1)	–
– Others	(0.5)	–
<b>Increase/(decrease) in Cash and cash equivalents</b>	<b>155.8</b>	<b>(29.2)</b>

## (B) Group Net Debt and Gearing

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

## Consolidated

US\$ millions	Net debt <sup>(i)</sup> 2005	Total equity 2005	Gearing (times) 2005	Net debt <sup>(i)</sup> 2004	Total equity 2004 (Restated)	Gearing (times) 2004 (Restated)
Head Office	152.6	1,419.2	0.11x	103.3	1,066.7	0.10x
Indofood	595.7	541.6	1.10x	705.3	589.4	1.20x
Metro Pacific	40.2	4.8	8.38x	45.7	(13.8)	–
Group adjustments <sup>(ii)</sup>	–	(1,258.9)	–	–	(1,051.2)	–
<b>Total</b>	<b>788.5</b>	<b>706.7</b>	<b>1.12x</b>	<b>854.3</b>	<b>591.1</b>	<b>1.45x</b>

## Associated

US\$ millions	Net debt 2005	Total equity 2005	Gearing (times) 2005	Net debt 2004	Total equity 2004 (Restated)	Gearing (times) 2004 (Restated)
PLDT	1,384.2	1,400.9	0.99x	2,169.4	840.7	2.58x

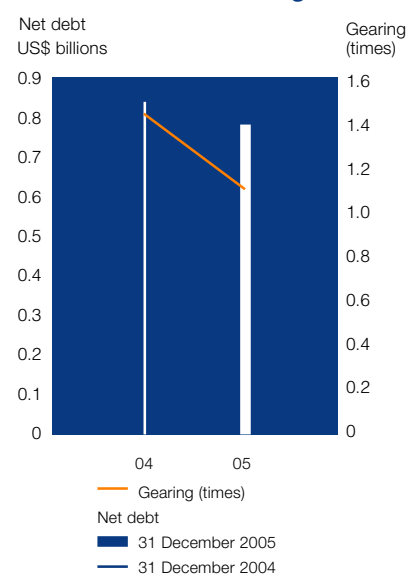
(i) Includes restricted cash.

(ii) Group adjustments mainly represents elimination of goodwill arising from acquisitions prior to 1 January 2001 against the Group's accumulated losses and other standard consolidation adjustments to present the Group as a single economic entity.

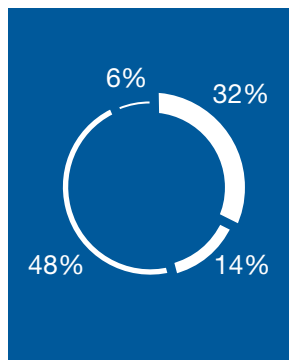
Head Office's gearing increased principally because of additional investment for 1.1 per cent interest in PLDT (US\$53.7 million) and acquisition of a 25.0 per cent interest in Level Up (US\$15.0 million). Indofood and Metro Pacific gearing declined mainly because of debt reduction efforts. PLDT's gearing declined substantially as strong free cash flows were used to reduce debts and profits enhanced total equity.

The Group's gearing continued to improve to 1.12x level as a result of debt management and reduction efforts of the operating companies coupled with the growth of Group's total equity as a result of strong profit contribution from PLDT.

## Net Debt and Gearing

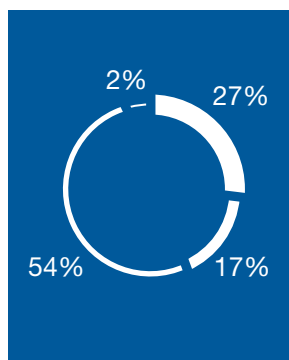


## Maturity Profile of Consolidated Debt 2005



	US\$ millions
Within one year	345.0
One to two years	152.3
Two to five years	518.6
Over five years	73.3
<b>Total</b>	<b>1,089.2</b>

## Maturity Profile of Consolidated Debt 2004



	US\$ millions
Within one year	288.9
One to two years	182.8
Two to five years	561.3
Over five years	17.1
<b>Total</b>	<b>1,050.1</b>

## Maturity Profile

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

### Consolidated

US\$ millions	2005	2004
Within one year	<b>345.0</b>	288.9
One to two years	<b>152.3</b>	182.8
Two to five years	<b>518.6</b>	561.3
Over five years	<b>73.3</b>	17.1
<b>Total</b>	<b>1,089.2</b>	1,050.1

The change in the Group's debt maturity profile at 31 December 2005 principally reflects Head Office's issuance of US\$199.0 million Exchangeable Notes due in 2010, the reclassification of US\$108.0 million bonds due in 2006 and a new bank loan of US\$50.0 million due in 2012, together with the settlements of principally Head Office's US\$32.0 million bank loan due in 2006 and Indofood's repurchases of Eurobonds due in 2007 and redemption of Rupiah bonds due in 2005 totalling US\$228.0 million.

### Associated

US\$ millions	PLDT 2005	2004
Within one year	<b>354.2</b>	500.4
One to two years	<b>376.8</b>	460.7
Two to five years	<b>455.4</b>	894.0
Over five years	<b>930.5</b>	987.0
<b>Total</b>	<b>2,116.9</b>	2,842.1

PLDT's debt maturity profile were stated at nominal values.

## 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, the principal components of the Company's NAV relate to investments denominated in the peso and rupiah. Accordingly, any change in these currencies, against their respective 31 December 2005 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 Group's adjusted NAV for a one per cent change of the peso and rupiah against the U.S. dollar.

Company	Effect on adjusted NAV <sup>(i)</sup> US\$ millions	Effect on adjusted NAV per share HK cents
PLDT	14.9	3.65
Indofood	4.1	1.00
<b>Total</b>	<b>19.0</b>	<b>4.65</b>

- (i) Based on quoted share prices as at 31 December 2005 applied to the Group's economic interest.  
(ii) The NAV of the Group's investment in Level Up is based on its historic U.S. dollar cost and, accordingly, any depreciation of the peso, rupee and reals would not affect the Group's adjusted NAV.

## (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

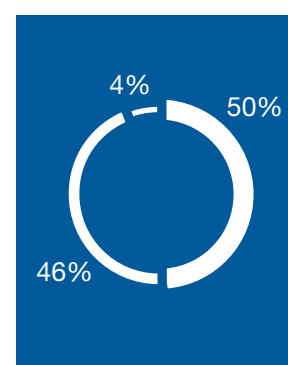
It is often necessary for operating entities to borrow in U.S. dollars, which results in the risk of a translation impact on local currency results. A summary of consolidated and associated companies' net debt by currency follows.

<b>Consolidated</b>					
US\$ millions	US\$	Peso	Rupiah	Others	Total
Total borrowings	501.7	44.7	542.8	–	<b>1,089.2</b>
Cash and cash equivalents <sup>(i)</sup>	(190.3)	(6.1)	(98.8)	(5.5)	<b>(300.7)</b>
<b>Net debt/(cash)</b>	<b>311.4</b>	<b>38.6</b>	<b>444.0</b>	<b>(5.5)</b>	<b>788.5</b>
Representing:					
Head Office	159.4	(1.3)	–	(5.5)	<b>152.6</b>
Indofood	151.7	–	444.0	–	<b>595.7</b>
Metro Pacific	0.3	39.9	–	–	<b>40.2</b>
<b>Net debt/(cash)</b>	<b>311.4</b>	<b>38.6</b>	<b>444.0</b>	<b>(5.5)</b>	<b>788.5</b>
<b>Associated</b>					
US\$ millions	US\$	Peso	Yen	Others	Total
PLDT	1,598.6	(282.5)	72.4	(4.3)	<b>1,384.2</b>

- (i) Includes restricted cash.

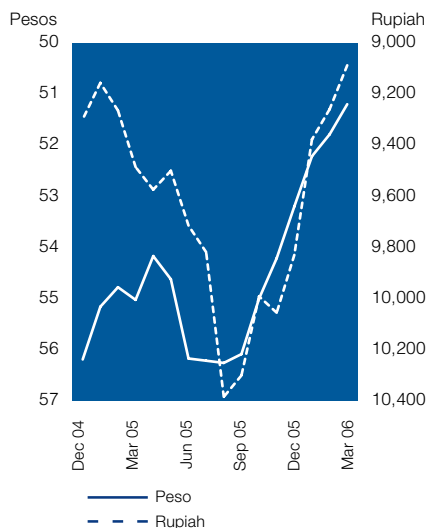
Details of changes in Head Office net debt are set out on page 32.

### Analysis of Total Borrowings by Currency

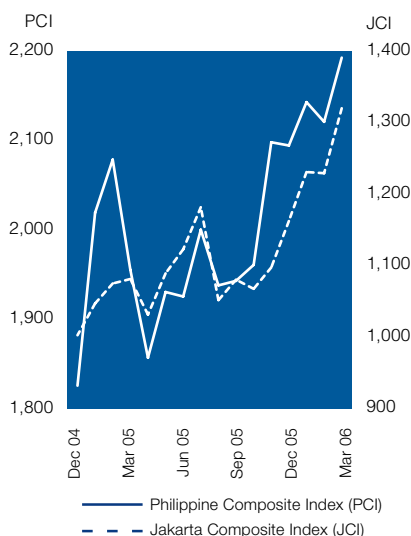


Currency	US\$ millions
Rupiah	542.8
US\$	501.7
Peso	44.7
<b>Total</b>	<b>1,089.2</b>

### Peso and Rupiah Closing Rates against the U.S. Dollars



### Stock Market Indices



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. PLDT has actively hedged approximately 59.1 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\$185.5 million or 8.4 per cent of PLDT's total revenues in 2005. 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.

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 U.S. dollar revenues and input costs at the operating company level.

US\$ millions	Total US\$ exposure	Hedged amount	Unhedged amount	Profit effect of 1% currency change	Group net profit effect
PLDT	1,598.6	944.3	654.3	6.5	<b>1.0</b>
Indofood	151.7	–	151.7	1.5	<b>0.5</b>
Metro Pacific	0.3	–	0.3	–	–
Head Office <sup>(i)</sup>	159.4	–	159.4	–	–
<b>Total</b>	<b>1,910.0</b>	<b>944.3</b>	<b>965.7</b>	<b>8.0</b>	<b>1.5</b>

(i) 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.

### Equity Market Risk

As the majority of the Company's investments are listed, the Company is exposed to fluctuations in the equity market value 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 2004	1,822.8	1,000.2
At 31 December 2005	2,096.0	1,162.6
Increase during 2005	15.0%	16.2%
At 31 March 2006	2,196.0	1,323.0
Increase over 2006 to 31 March 2006	4.8%	13.8%

In January 2005, a wholly owned Head Office subsidiary issued the zero coupon 5-year US\$199 million Exchangeable Notes guaranteed by the Company. The holders of the Exchangeable Notes have the right to exchange the Exchangeable Notes to the underlying approximately 3.8% interest in PLDT and the Company has the option to settle such exchange obligation in cash or shares in PLDT. Pursuant to the new accounting standard HKAS 39, the exchange option embedded in Exchangeable Notes is subject to mark-to-market fair value accounting which tracks to PLDT share price performance and generated a non-cash accounting loss of US\$25.4 million in 2005. The increase of such option liability is economically hedged by a corresponding increase in the value of PLDT shares held by the Group generally and specifically the approximately 3.8% PLDT shares underlying the Exchangeable Notes. Such a natural hedge and the corresponding increase in value of the Group's shareholding in PLDT, however, is not to be reflected in the Group's Financial Statements under HKAS 28 as the Group's investments in and results of PLDT are equity accounted for.

As announced on 18 January 2006, the Group purchased an additional 1.3% in PLDT for US\$74.1 million and will continue to acquire shares in PLDT to both economically hedge against the changes in option liability and to secure its strategic shareholding in PLDT.

### 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 for consolidated and associated companies follows.

#### Consolidated

US\$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents <sup>(i)</sup>	Net debt
Head Office	300.4	49.3	(197.1)	<b>152.6</b>
Indofood	373.8	320.7	(98.8)	<b>595.7</b>
Metro Pacific	29.2	15.8	(4.8)	<b>40.2</b>
<b>Total</b>	<b>703.4</b>	<b>385.8</b>	<b>(300.7)</b>	<b>788.5</b>

#### Associated

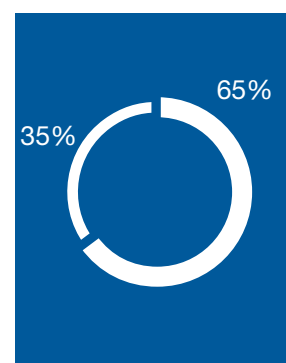
US\$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents	Net debt
PLDT	1,400.2	550.3	(566.3)	<b>1,384.2</b>

(i) Includes restricted cash.

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

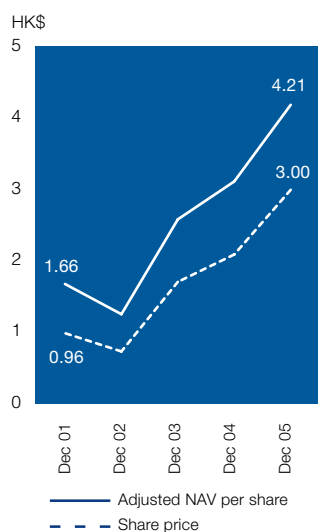
US\$ millions	Variable interest rate borrowings	Profit effect of 1% change in interest rates	Group net profit effect
Head Office	49.3	0.5	<b>0.5</b>
Indofood	320.7	3.2	<b>1.2</b>
Metro Pacific	15.8	0.2	<b>0.1</b>
PLDT	550.3	5.5	<b>0.9</b>
<b>Total</b>	<b>936.1</b>	<b>9.4</b>	<b>2.7</b>

### Interest Rate Profile



	US\$ millions
Fixed	703.4
Floating	385.8
<b>Total</b>	<b>1,089.2</b>

## Share Price vs Adjusted NAV Per Share



## Adjusted NAV Per Share

There follows a calculation of the Group's underlying worth.

At 31 December		2005	2004
US\$ millions	Basis		
PLDT	(i)	<b>1,491.5</b>	999.0
Indofood	(i)	<b>407.0</b>	378.6
Level Up	(ii)	<b>15.0</b>	–
Head Office – Net debt		<b>(152.6)</b>	(103.3)
– Derivative liability	(iii)	<b>(39.3)</b>	–
<b>Total valuation</b>	(iv)	<b>1,721.6</b>	1,274.3
<b>Number of ordinary shares in issue</b> (millions)		<b>3,188.8</b>	3,186.0
Value per share			
– U.S. dollar		<b>0.54</b>	0.40
– HK dollars		<b>4.21</b>	3.12
Company's closing share price (HK\$)		<b>3.00</b>	2.08
Share price discount to HK\$ value per share (%)		<b>28.7</b>	33.3

(i) Based on quoted share prices applied to the Group's economic interest.

(ii) Based on investment cost.

(iii) Represents the fair value of option element embedded in the Exchangeable Notes.

(iv) No value has been attributed to the Group's investment in Metro Pacific or Mobile-8.