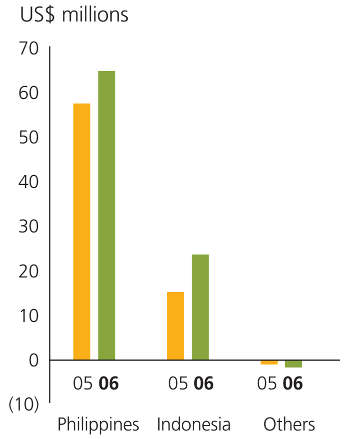
Review of Operations

Contribution by Country



Contribution Summary

For the six months ended 30 June US$ millions	Turnover 2006	 2005	Contribution to Group profit[i] 2006	 2005
PLDT[ii]	**–**	–	**66.5**	58.8
Indofood	**1,104.7**	911.6	**23.8**	15.5
Metro Pacific/MPIC	**31.8**	30.9	**(1.4)**	(1.1)
Level Up[ii]	**–**	–	**(1.2)**	(0.6)
From Operations	**1,136.5**	942.5	**87.7**	72.6
Head Office items:				
– Corporate overhead			**(6.4)**	(5.3)
– Net interest expense			**(11.4)**	(10.0)
– Other expenses			**(0.9)**	(3.4)
Recurring Profit			**69.0**	53.9
Foreign exchange and derivative losses[iii]			**(3.7)**	(7.7)
Non-recurring items[iv]			**6.9**	14.6
Profit Attributable to Equity Holders of the Parent			**72.2**	60.8

(i) After taxation and minority interest, where appropriate.

(ii) Associated companies.

(iii) 1H06's foreign exchange and derivative losses include a US$2.1 million (1H05: US$10.4 million) loss on revaluation of option element embedded in Head Office's Exchangeable Notes, a US$3.3 million (1H05: Nil) loss on changes in the fair value of 1.1 per cent PLDT shares acquired by the Group in 2006 and designated as financial assets at fair value through profit or loss and US$1.7 million (1H05: US$2.7 million) gains on foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings.

(iv) 1H06's non-recurring gains of US$6.9 million mainly comprise a gain on dilution upon conversion of PLDT's convertible preference shares of US$10.2 million and a gain on divestment of the Group's interest in PLDT of US$7.1 million on settlement of certain Head Office's Exchangeable Notes with PLDT shares. 1H05's non-recurring gains of US$14.6 million mainly comprised goodwill compensation received by Indofood in connection with the establishment of a joint venture entity of US$5.0 million, a gain on dilution of the Group's interest in PLDT of US$3.0 million and Metro Pacific's adjustments made to amounts owed to Pacific Plaza Towers contractor and others.

During the period, the Group's turnover increased by 20.6 per cent to US$1,136.5 million (1H05: US$942.5 million), principally reflecting an increase in Indofood's turnover and a strengthened rupiah. The Group's businesses improved their operating performance in 1H06, recording profit contributions totaling US$87.7 million (1H05: US$72.6 million), an increase of 20.8 per cent. Recurring profit also increased by 28.0 per cent to US$69.0 million from US$53.9 million in 1H05. The Group recorded US$3.7 million (1H05: US$7.7 million) net foreign exchange and derivative losses and US$6.9 million (1H05: US$14.6 million) of net non-recurring gains. As a result, the Group recorded a net profit for 1H06 of US$72.2 million, a 18.8 per cent improvement over 1H05's net profit of US$60.8 million.

The Group's operating results are denominated in local currencies, principally the peso and rupiah, which are translated and consolidated to provide the Group's results in U.S. dollar. The changes of these currencies against the U.S. dollar is summarized below.

Closing	**At 30 June 2006**	At 31 December 2005	Six months change	At 30 June 2005	One year change
Peso	**53.12**	53.09	–0.1%	56.11	+5.6%
Rupiah	**9,300**	9,830	+5.7%	9,713	+4.4%

Average	**Six months ended 30 June 2006**	12 months ended 31 December 2005	Six months change	Six months ended 30 June 2005	One year change
Peso	**52.11**	54.99	+5.5%	54.91	+5.4%
Rupiah	**9,180**	9,756	+6.3%	9,443	+2.9%

In 1H06, the Group recorded net foreign exchange and derivative losses of US$3.7 million (1H05: US$7.7 million), which may be further analyzed as follows:

For the six months ended 30 June US$ millions	**2006**	2005
Head Office	**(5.1)**	(10.4)
PLDT	**(0.6)**	7.7
Indofood	**1.9**	(5.0)
Others	**0.1**	–
Total	**(3.7)**	(7.7)

PLDT

Philippine Long Distance Telephone Company (PLDT)'s operations are principally denominated in peso, which averaged Pesos 52.11 (1H05: 54.91) to the U.S. dollar. Its financial results are prepared under Philippine Generally Accepted Accounting Principles (GAAP) and reported in peso. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollar. Despite the Philippine GAAP and Hong Kong GAAP being largely based on International Financial Reporting Standards (IFRSs), certain adjustments still need to be made to PLDT's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

For the six months ended 30 June Peso millions	**2006**	2005
Net income under Philippine GAAP	**15,306**	16,785
Preference dividends[(i)]	**(44)**	(700)
Net income attributable to common shareholders	**15,262**	16,085
Differing accounting treatments[(ii)]		
– Reclassification of non-recurring items	**(241)**	–
– Others	**(579)**	(1,122)
Intragroup items[(iii)]	**150**	150
Adjusted net income under Hong Kong GAAP	**14,592**	15,113
Foreign exchange and derivative losses/(gains)[(iv)]	**142**	(1,743)
PLDT's net income as reported by First Pacific	**14,734**	13,370
US$ millions		
Net income at prevailing average rates for 1H06: Pesos 52.11 and 1H05: Pesos 54.91	**282.7**	243.5
Contribution to First Pacific Group profit, at an average shareholding of 1H06: 23.5% and 1H05: 24.2%	**66.5**	58.8

(i) First Pacific presents net income after deduction of preference dividends.

(ii) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP. The principal adjustment includes:

– Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. In 1H06, Pesos 2.7 billion deferred tax assets and benefits (recognized after Piltel has established a history of taxable profits) and Pesos 2.5 billion additional accelerated depreciation expenses due to migration to Next Generation Network were excluded and presented separately as non-recurring items.

(iii) These are standard consolidation adjustments to ensure that transactions between Group companies are eliminated to present the Group as a single economic entity.

(iv) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains/losses (net of related tax) are excluded and presented separately.

PLDT contributed a profit of US$66.5 million (1H05: US$58.8 million) to the Group. In peso terms, its consolidated core earnings before foreign exchange and derivative losses, deferred tax assets and additional depreciation increased by 11 per cent to Pesos 15.2 billion (US$291.7 million) (1H05: Pesos 13.7 billion; US$249.5 million) contributed from higher revenues from both Wireless and Fixed Line data services. PLDT declared an interim dividend of Pesos 50 (US$1) per share represented a 60 per cent payout of its consolidated core earnings. Consolidated net income decreased by 7 per cent to Pesos 15.3 billion (US$293.6 million) (1H05: Pesos 16.5 billion; US$300.5 million) which primarily resulted from foreign exchange losses, a higher statutory tax rate and additional depreciation expenses in relation to the migration of the existing fixed line system to Next Generation Network (NGN).

PLDT's consolidated service revenues grew 2.0 per cent to Pesos 60.6 billion (US$1,162.9 million) (1H05: Pesos 59.5 billion; US$1,083.6 million) reflecting the net effect of higher revenue contributions from the Wireless and Information and Communications Technology (ICT) business groups, partly offset by lower Fixed Line revenues. With the combined effect of revenue growth and continued management of cash costs, PLDT group's earnings before interest, tax, depreciation and amortization (EBITDA) improved by 7 per cent to Pesos 40.4 billion (US$775.3 million) (1H05: Pesos 37.9 billion; US$690.2 million). EBITDA margin increased to 67 per cent (1H05: 64 per cent) of service revenues.

For the first half of 2006, consolidated data revenue grew by 12 per cent to Pesos 26.1 billion (US$500.9 million) which accounted for 43 per cent of the consolidated revenue compared with 39 per cent contribution in 2005. The increase in consolidated data and ICT revenues more than compensated for the decline in traditional voice revenues. Going forward, PLDT expects its revenue mix to shift from voice to data as it continues to upgrade its networks to support the growth in broadband and other data services.

The ICT group is expected to increase its overall contribution to the PLDT group. ePLDT will continue to broaden its revenue base from its existing core businesses, complemented by strategic investments in new areas with high growth potential.

PLDT's consolidated free cash flow stood at Pesos 17.4 billion (US$333.9 million) (1H05: Pesos 27.4 billion; US$499.0 million) despite a 77 per cent increase in consolidated capital expenditure to Pesos 12.4 billion (US$238.0 million) (1H05: Pesos 7.0 billion; US$127.5 million) as a result of the ongoing upgrade and expansion of its fixed line and cellular network facilities. Its strong free cash flow enabled it to reduce debt by US$269 million during the first half of 2006. It plans to repay an additional US$81 million in the second half of 2006. PLDT group's total debt was US$1.8 billion as at the end of June 2006 (31 December 2005: US$2.1 billion).

Wireless: Smart's and Piltel's consolidated wireless service revenues increased by 6 per cent to Pesos 38.6 billion (US$740.8 million) (1H05: Pesos 36.5 billion; US$664.7 million) principally contributed from the sustained growth in data revenue and *Smart 25*[8] series packages and promotions. Consolidated wireless EBITDA increased by 8 per cent to Pesos 25.8 billion (US$495.1 million) (1H05: Pesos 23.9 billion; US$435.3 million) resulting from Smart's efforts on reducing cash operating expenses, while EBITDA margins improved to 67 per cent. Smart and Piltel's *Talk 'N Text* combined GSM subscriber base grew by 2.1 million during the period to 22.5 million (31 December 2005: 20.4 million) which represents approximately 59 per cent of the cellular market in the Philippines. As at the end of June 2006, the cellular penetration rate in the Philippines was approximately 44 per cent.

Smart has invested US$60 million in its 3G network which is the widest 3G network in the Philippines. Its 3G services enables video calling in 142 Philippine's cities and international video calling to 13 countries, TV streaming of major television networks in the Philippines, and downloading of full music tracks and video clips from the Internet.

Smart continued to introduce various attractive innovative wireless broadband products and services under brand names of *Smart Bro*. Through the ongoing network coverage and capacity expansion, and market segmentation, PLDT's Wireless group is able to further strengthen its market leader position by offering value-added SMS and voice call packages to satisfy its wide-range subscribers' needs and to employ its facilities efficiently. The future revenue growth is expected to continue to be driven by broadband and data services. This equips PLDT to transform Smart from a cellular company into a multi-service wireless communications provider.

Fixed Line: Fixed Line service revenues were flat at Pesos 24.1 billion (US$462.5 million) (1H05: Pesos 24.2 billion; US$440.7 million) resulting from the increase in corporate data and residential digital subscriber line (DSL) data services revenues which were offset by the reduction in revenues of the local exchange and international long distance call service revenues due to the five per cent year-on-year appreciation of the peso. Fixed Line EBITDA improved by 4 per cent to Pesos 14.2 billion (US$272.5 million) (1H05: Pesos 13.6 billion; US$247.7 million) reflecting the significant decline in doubtful account provision and EBITDA margins recorded an improvement to 59 per cent (1H05: 56 per cent).

PLDT DSL and *Vibe* dial-up Internet service accelerated their growth during the period, their consolidated revenues significantly improved by 43 per cent to Pesos 1.7 billion (US$32.6 million). As at the end of June 2006, DSL's broadband subscriber grew by 20,000 to 109,000 while *Vibe* dial-up Internet service subscriber increased by 43,000 during the period to 425,000.

The ongoing upgrade to NGN is expected to increase PLDT's network capabilities and efficiency, as well as reduce operating costs.

Information and Communications Technology: ePLDT service revenues rose 36 per cent to Pesos 1.8 billion (US$34.5 million) (1H05: Pesos 1.3 billion; US$23.7 million) of which Pesos 1.2 billion (US$23.0 million) or 68 per cent was contributed from its call center group ePLDT Ventus. Consolidated call center revenues grew by 48 per cent during the period resulting from an increase in capacity utilization and business expansion. Currently, its call centers have 4,660 seats operating in seven locations.

On 11 July 2006, PLDT expanded its business portfolio to global business process outsourcing (BPO) market by acquiring the full ownership of SPi Technologies, Inc. (SPi) which ranked the world's second largest pure-play BPO service provider and the ninth largest independent BPO company. Its principal businesses include content editorial and production, litigation support coding and electronic discovery, medical transcription, and database structuring and management. This acquisition increased ePLDT's service seats to 8,300.

ePLDT accelerates its gaming content development for both fixed line broadband and wireless businesses by acquiring 60 per cent interest of Level Up! Philippines, and 20 per cent interest in PhilWeb which is an internet-based gaming company.

Indofood

PT Indofood Sukses Makmur Tbk (Indofood)'s operations are principally denominated in rupiah, which averaged Rupiah 9,180 (1H05: 9,443) to the U.S. dollar. Its financial results are prepared under Indonesian GAAP and reported in rupiah. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollar. Accordingly, certain adjustments need to be made to Indofood's reported rupiah results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

For the six months ended 30 June Rupiah billions	**2006**	2005
Net income under Indonesian GAAP	**268**	14
Differing accounting treatments(i)		
– Reclassification of non-recurring items	**55**	(47)
– Gain on revaluation of plantations	**154**	45
– Foreign exchange accounting	**27**	27
– Others	**(45)**	(67)
Adjusted net income/(loss) under Hong Kong GAAP	**459**	(28)
Foreign exchange and derivative (gains)/losses(ii)	**(35)**	312
Indofood's net income as reported by First Pacific	**424**	284
US$ millions		
Net income at prevailing average rates for 1H06: Rupiah 9,180 and 1H05: Rupiah 9,443	**46.2**	30.1
Contribution to First Pacific Group profit, at an average shareholding of 1H06: 51.5% and 1H05: 51.5%	**23.8**	15.5

(i) Differences in accounting treatment under Indonesian GAAP, compared with Hong Kong GAAP. The principal adjustments include:

- *Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 1H06 of Rupiah 55 billion losses represents Rupiah 29 billion write-off of deferred tax assets as a consequence of a group restructuring among subsidiary companies within Indofood's edible oils and fats division and Rupiah 26 billion of manpower rightsizing costs. Adjustment for 1H05 of Rupiah 47 billion gains represents Rupiah 91 billion goodwill compensation received in connection to the establishment of a joint venture entity, partly offset by Rupiah 44 billion of manpower rightsizing costs.*
- *Gain on revaluation of plantations: Under Indonesian GAAP, Indofood measures its plantations (biological assets) on historical cost basis. HKAS 41 "Agriculture" requires the measurement of plantations at fair value less estimated point-of-sale costs. The adjustment relates to the changes in fair value of plantations during the period.*
- *Foreign exchange accounting: The adjustment relates to the reversal of the amortization of foreign exchange losses that were previously capitalized by Indofood on certain fixed assets under construction, as the originating capitalized foreign exchange losses has already been written off by First Pacific.*

(ii) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains/losses (net of related tax) are excluded and presented separately.

Indofood contributed a recurring profit of US$23.8 million (1H05: US$15.5 million) in the first half of 2006 representing a 53.5 per cent improvement over the same period in 2005. In rupiah terms, consolidated sales increased by 17.8 per cent to Rupiah 10,141.7 billion (US$1,104.7 million) (1H05: Rupiah 8,608.7 billion; US$911.6 million) contributed from strong volume growth in most business groups despite weak consumer purchasing power. Due to higher fuel-related and raw material costs, consolidated operating expenses were up by 9.3 per cent to Rupiah 1,371.4 billion (US$149.4 million) (1H05: Rupiah 1,255.2 billion; US$132.9 million) and gross margin decreased to 22.7 per cent (1H05: 24.9 per cent). Net income significantly increased to Rupiah 267.8 billion (US$29.2 million) (1H05: Rupiah 14.5 billion; US$1.5 million) reflecting improved sales and foreign exchange gain of Rupiah 50.2 billion (US$5.5 million) (1H05: Loss of Rupiah 445.1 billion; US$47.1 million). Net interest costs slightly declined to Rupiah 414.1 billion (US$45.1 million) (1H05: Rupiah 427.3 billion; US$45.3 million) reflecting the lower average outstanding balance of the Eurobonds due in 2007 as a result of early redemptions made in 2005 and 2006. Debt to equity ratio stood at 1.58 times (31 December 2005: 1.59 times) and net gearing ratio improved to 1.18 times (31 December 2005: 1.36 times).

On 23 August 2006, Indofood announced the proposed listing of its oil palm plantations and edible oils and fats (EOF) businesses through a reverse takeover of a Singapore listed company ISG Asia Limited (ISG). According to the proposal, Indofood agreed to sell its EOF businesses valued at approximately S$392.7 million (US$248.5 million) to ISG for an exchange of 9.982 billion new ISG shares; ISG to be renamed to Indofood Agri Resources Limited; and thereafter to issue additional new shares to raise fund for the expansion of its EOF business group. The proposal is subject to respective shareholders' and regulatory authorities' approval.

Consumer Branded Products includes Noodles, Nutrition and Special Foods, Snack Foods and Food Seasonings. Total sales of this business group improved by 23.1 per cent to Rupiah 4,048.7 billion (US$441.0 million) (1H05: Rupiah 3,288.6 billion; US$348.3 million).

Noodles' sales increased by 21.2 per cent to Rupiah 3,517.9 billion (US$383.2 million) (1H05: Rupiah 2,901.7 billion; US$307.3 million) partially supported by the improvement in the distribution system and an implementation of certain marketing strategies, despite increased in raw materials and operating costs. Income from operations improved by 19.1 per cent to Rupiah 299.5 billion (US$32.6 million) (1H05: Rupiah 251.4 billion; US$26.6 million).

Nutrition and Special Foods recorded a 42.1 per cent increase in sales to Rupiah 179.7 billion (US$19.6 million) (1H05: Rupiah 126.5 billion; US$13.4 million), as a result of the increase in sales volume and average selling price. Income from operations was up 33.1 per cent to Rupiah 31.7 billion (US$3.5 million) (1H05: Rupiah 23.8 billion; US$2.5 million).

Sales of ***Snack Foods*** grew by 45.0 per cent to Rupiah 191.9 billion (US$20.9 million) (1H05: Rupiah 132.3 billion; US$14.0 million) stimulated mainly by the increase in sales volume. Income from operation improved by over two times to Rupiah 12.7 billion (US$1.4 million) (1H05: Rupiah 4.0 billion; US$0.4 million). Management will continue to review Snack Foods' products range and marketing strategy to sustain growth.

Food Seasoning recorded a 24.3 per cent increased in sales to Rupiah 159.2 billion (US$17.3 million) (1H05: Rupiah 128.1 billion; US$13.6 million) due to increased sales volume. Income from operations turnaround to a profit of Rupiah 1.9 billion (US$0.2 million) from a loss of Rupiah 9.9 billion (US$1.0 million) for the same period in 2005.

Bogasari: Sales improved by 13.9 per cent to Rupiah 4,121.0 billion (US$448.9 million) (1H05: Rupiah 3,616.8 billion; US$383.0 million) reflecting the increase in sales volume of flour, flour's by-product and pasta. Income from operations improved by 51.9 per cent to Rupiah 427.8 billion (US$46.6 million) (1H05: Rupiah 281.6 billion; US$29.8 million).

Edible Oils and Fats: Performance of this business unit pressured by U.S. dollar-linked revenues due to the appreciation of rupiah during the period despite total sales improvement to Rupiah 2,166.1 billion (US$236.0 million) (1H05: Rupiah 2,057.7 billion; US$217.9 million).

On 16 August 2006, Indofood subsidiary company signed a conditional sale and purchase agreement to acquire approximately 85,500 hectares of plantation land. The transaction is expected to be completed by 31 December 2006. This is in line with Indofood's long-term strategy to accelerate the expansion of its oil palm plantation and development of its Edible Oils and Fats business group.

Cooking Oils and Fats' sales increased by 9.7 per cent to Rupiah 1,241.8 billion (US$135.3 million) (1H05: Rupiah 1,131.6 billion; US$119.8 million) contributed from the increase in sales volume. Operational results turned to a loss of Rupiah 4.7 billion (US$0.5 million) (1H05: a profit of Rupiah 34.3 billion; US$3.6 million).

Sales of the ***Commodity*** stabled at Rupiah 384.3 billion (US$41.9 million) (1H05: Rupiah 388.4 billion; US$41.1 million). Though sales volume of coconut oil based and crude palm oil based products increased, operational results reported a loss of Rupiah 38.2 billion (US$4.2 million) (1H05: a profit of Rupiah 5.5 billion; US$0.6 million) due to the strengthening of Rupiah as majority of the sales are exported.

Plantation: Indofood increased its plantation size from approximately 95,000 hectares in December 2005 to approximately 138,000 hectares in the first half of 2006. The current CPO supply can support approximately 45 per cent of Indofood's internal demand. Sales stabled at Rupiah 540.0 billion (US$58.8 million) (1H05: 537.6 billion; US$56.9 million). Income from operations declined by 17.9 per cent to Rupiah 220.8 billion (US$24.1 million) (1H05: Rupiah 269.1 billion; US$28.5 million).

Distribution reported a 37.0 per cent grew in sales to Rupiah 1,417.2 billion (US$154.4 million) (1H05: Rupiah 1,034.5 billion; US$109.6 million) resulted from the improvement in distribution system and focused marketing strategy. Income from operations improved by 63.1 per cent to Rupiah 8.6 billion (US$0.9 million) (1H05: Rupiah 5.3 billion; US$0.6 million).

Metro Pacific/MPIC

Metro Pacific Corporation (Metro Pacific)/Metro Pacific Investments Corporation (MPIC)'s operations are principally denominated in peso, which averaged Pesos 52.11 (1H05: 54.91) to the U.S. dollar. Its financial results are prepared under Philippine GAAP and reported in peso. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollar. Despite the Philippine GAAP and Hong Kong GAAP being largely based on IFRSs, certain adjustments still need to be made to Metro Pacific's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

For the six months ended 30 June Peso millions	**2006**	2005
Net (loss)/income under Philippine GAAP	**(446)**	91
Differing accounting treatments[i]		
– Reclassification of non-recurring items	**341**	(175)
– Others	**–**	(1)
Intragroup items	**–**	5
Adjusted net loss under Hong Kong GAAP	**(105)**	(80)
Foreign exchange and derivative gains[ii]	**–**	(1)
Metro Pacific/MPIC's net loss as reported by First Pacific	**(105)**	(81)
US$ millions		
Net loss at prevailing average rates for 1H06: Pesos 52.11 and 1H05: Pesos 54.91	**(2.0)**	(1.5)
Contribution to First Pacific Group profit, at an average shareholding of 1H06: 75.7% (1H05: 75.5%) for Metro Pacific and 100% for MPIC	**(1.4)**	(1.1)

(i) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP. The principal adjustment includes:

– Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 1H06 of Pesos 0.3 billion losses principally relate to provisions for a vessel and an investment in a real estate associated company. Adjustment for 1H05 of Pesos 0.2 billion gains principally relate to adjustments made to amounts owed to Pacific Plaza Towers contractor.

(ii) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains (net of related tax) are excluded and presented separately.

Metro Pacific/MPIC contributed a recurring loss of US$1.4 million (1H05: loss of US$1.1 million) to the Group. At Metro Pacific/MPIC level, a loss of Pesos 446.0 million (US$8.6 million) was reported which was largely a reflection of two non-recurring items; a vessel write down and a provision made against an affiliated real estate investment. Consolidated revenues were Pesos 1.7 billion (US$31.8 million) (1H05: Pesos 1.7 billion; US$30.9 million) reflecting higher revenues from Landco Pacific Corporation (Landco Pacific) offset by lower revenues from Negros Navigation Co., Inc. due to over-capacity in the Philippines domestic shipping industry. Operating expenses increased by 49.2 per cent to Pesos 333.4 million (US$6.4 million) (1H05: Pesos 223.5 million; US$4.1 million) largely reflecting pre-development activities in relation to Landco Pacific's new and expansion projects.

In March 2006, Metro Pacific commenced its reorganization and recapitalization plan to strengthen its capital position in preparation for new growth. The first stage of the plan; migrating Metro Pacific's 51.0 per cent owned subsidiary Landco, Inc. to a newly established investment company, MPIC, was completed in April 2006. On 23 August 2006, Metro Pacific received approval from the Philippine Securities and Exchange Commission to consolidate every 20 common shares of Metro Pacific into one new Metro Pacific share. MPIC plans to announce details of its tender offer to Metro Pacific shareholders in September 2006. The offer is anticipated to be for every four Metro Pacific consolidated common shares to exchange for one new MPIC common share and to Metro Pacific's minority shareholders, three warrants to subscribe for three MPIC common shares at par. MPIC plans to list on the Philippine Stock Exchange in November 2006 and Metro Pacific will become its unlisted subsidiary company.

Level Up

Level Up! International Holdings Pte. Ltd. (Level Up) contributed a recurring loss of US$1.2 million (2Q05: post acquisition recurring loss of US$0.6 million) to the Group. The Group also shared a non-recurring gain of US$1.8 million arising from the disposal of 60 per cent interest in Level Up! Philippines to ePLDT in April 2006.

In **the Philippines**, Level Up's market share of paying subscribers is stable at approximately 80 per cent. Ragnarok (developed by Gravity Co. Ltd.) remains the most popular game since it was launched in 2003. Level Up is working with Gravity to revitalize Ragnarok and to launch new product features in Rose (a 3-D massively multiplayer online role playing game (MMORPG) developed by Gravity). Another 3-D MMORPG, RF Online (developed by CCR Inc.) and a leading Korean sports casual game, Free Style (developed by JCE Entertainment Co. Ltd.) were launched in January and March 2006, respectively. Level Up increases its market reach by partnering with a leading consumer brand and a leading magazine.

ePLDT, a wholly-owned subsidiary of PLDT, completed the acquisition of 60 per cent interest of this operation in April 2006. The company will merge with ePLDT's netGames by year end of 2006. The merger is expected to realize significant cost savings, enhance efficiencies and further strengthen the company's position as a market leader.

In **Brazil**, Ragnarok remains popular. Level Up plans to launch new games Gunz (developed by Maiet Entertainment Inc.), Grand Chase (developed by KOG Studios) and RF Online in the second half of 2006, as well as to distribute Ragnarok game time through a leading Brazilian Internet portal. Level Up continues to expand its distribution network to reach popular street kiosks in metropolitan areas and plans to offer its prepaid cards and CDs through leading national retail outlets.

In **India**, Level Up launched limited commercial service for Ragnarok in March 2006. Gunz is in an open beta stage and the commercial launch is expected to take place in the third quarter of 2006. Level Up continues to develop its distribution networks in key metropolitan areas. India is a very early stage market with significant medium term potential; hence no significant revenues are expected in the short term.