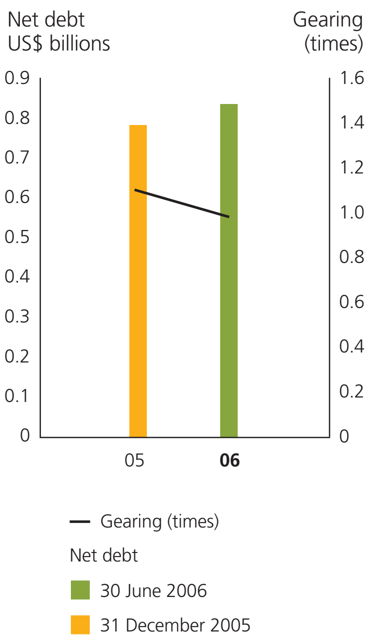
Net Debt and Gearing



Liquidity and Financial Resources

Net Debt and Gearing

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

Consolidated

US$ millions	At 30 June 2006 Net debt(i)	Total equity	Gearing (times)	At 31 December 2005 Net debt(i)	Total equity	Gearing (times)
Head Office	**229.8**	**1,425.5**	**0.16x**	152.6	1,419.2	0.11x
Indofood	**573.2**	**654.0**	**0.88x**	595.7	541.6	1.10x
Metro Pacific/MPIC	**37.3**	**11.2**	**3.33x**	40.2	4.8	8.38x
Group adjustments(ii)	**–**	**(1,239.6)**	**–**	–	(1,258.9)	–
Total	**840.3**	**851.1**	**0.99x**	788.5	706.7	1.12x

Associated

US$ millions	At 30 June 2006 Net debt	Total equity	Gearing (times)	At 31 December 2005 Net debt	Total equity	Gearing (times)
PLDT	**1,218.5**	**1,616.5**	**0.75x**	1,384.2	1,400.9	0.99x

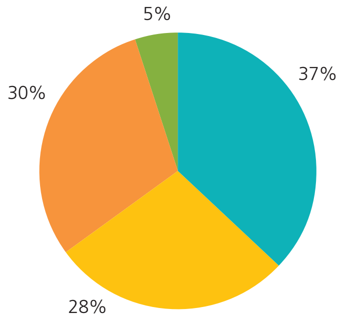
(i) Includes restricted cash.

(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 payments for the additional investment for 1.1 per cent interest in PLDT. Indofood's gearing declined mainly because of increased total equity. Metro Pacific/MPIC's gearing declined mainly because of larger equity base and debt settlements at Metro Pacific. PLDT's gearing declined as strong free cash flows were used to reduce debts and profits enhanced total equity.

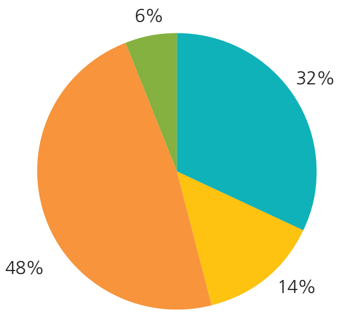
The Group's gearing continued to improve to 0.99x level principally as a result of the growth of Group's total equity as a result of strong profit contributions from PLDT and Indofood.

Maturity Profile of Consolidated Debt 30 June 2006



	US$ millions
Within one year	422.1
One to two years	326.9
Two to five years	343.9
Over five years	61.7
Total	**1,154.6**

Maturity Profile of Consolidated Debt 31 December 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
Total	**1,089.2**

Maturity Profile

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

Consolidated

US$ millions	**At 30 June 2006**	At 31 December 2005
Within one year	**422.1**	345.0
One to two years	**326.9**	152.3
Two to five years	**343.9**	518.6
Over five years	**61.7**	73.3
Total	**1,154.6**	1,089.2

The change in Group's debt maturity profile at 30 June 2006 principally reflects Indofood's refinancing of the outstanding amount of US$153.7 million Eurobonds due in June 2007 and reclassification of Rupiah 1.2 trillion (US$129.0 million) of Rupiah bonds due in June 2008.

Associated

	PLDT	
US$ millions	**At 30 June 2006**	At 31 December 2005
Within one year	**162.2**	354.2
One to two years	**349.6**	376.8
Two to five years	**507.6**	455.4
Over five years	**832.4**	930.5
Total	**1,851.8**	2,116.9

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

Charges on Group Assets

At 30 June 2006, certain bank and other borrowings were secured by the Group's property and equipment, accounts receivables, available-for-sale assets and inventories with a net book value of US$74.1 million (31 December 2005: US$45.2 million). Apart from these, the Head Office's US$108.0 million secured bonds and a US$50.0 million bank loan were secured by the Group's interests of 51.5 per cent (31 December 2005: 51.5 per cent) in Indofood and 1.7 per cent (31 December 2005: 1.7 per cent) in PLDT, respectively.

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 and enters into hedging arrangements (including the use of forward exchange contracts) for managing its foreign currency exposure in respect of dividend income and payments in foreign currency on a transactional basis. 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 Group's net asset value (NAV) relate to investments denominated in the peso and rupiah. Accordingly, any change in these currencies, against their respective 30 June 2006 exchange rates, would have an effect on the Group'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(i)** US$ millions	**Effect on adjusted NAV per share** HK cents
PLDT	15.5	3.79
Indofood	4.2	1.02
MPIC	0.2	0.04
Total	**19.9**	**4.85**

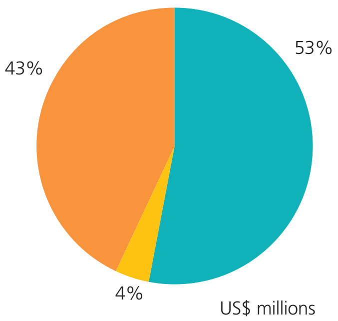
(i) Based on quoted share prices as at 30 June 2006 applied to the Group's economic interest for PLDT and Indofood and investment cost for MPIC.

(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 reais would not affect the Group's adjusted NAV.

(b) Group Risk

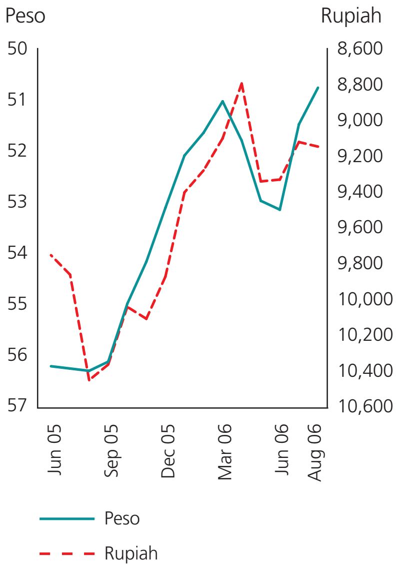
The Group's operating results are denominated in local currencies, principally the peso and rupiah, which are translated and consolidated to give the Group's results in U.S. dollars.

Analysis of Total Borrowing by Currency



	US$ millions
US$	614.0
Peso	41.7
Rupiah	495.1
Others	3.8
Total	**1,154.6**

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



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	614.0	41.7	495.1	3.8	**1,154.6**
Cash and cash equivalents(i)	(196.0)	(6.2)	(110.9)	(1.2)	**(314.3)**
Net Debt	418.0	35.5	384.2	2.6	**840.3**
Representing:					
Head Office	231.8	(1.5)	–	(0.5)	**229.8**
Indofood	185.9	–	384.2	3.1	**573.2**
Metro Pacific/MPIC	0.3	37.0	–	–	**37.3**
Net Debt	418.0	35.5	384.2	2.6	**840.3**

Associated

US$ millions	US$	Peso	Yen	Others	**Total**
PLDT	1,375.2	(204.2)	48.8	(1.3)	**1,218.5**

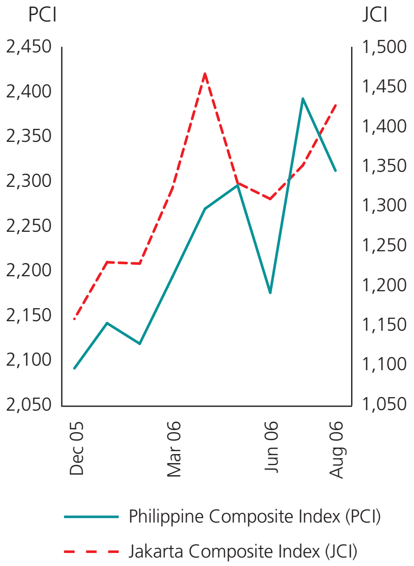
(i) Includes restricted cash.

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 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	1,375.2	884.7	490.5	4.9	**0.7**
Indofood	185.9	–	185.9	1.9	**0.7**
Metro Pacific/MPIC	0.3	–	0.3	–	**–**
Head Office(i)	231.8	–	231.8	–	**–**
Total	1,793.2	884.7	908.5	6.8	**1.4**

(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.

Stock Market Indices



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.

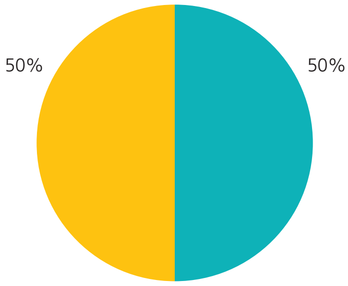
First Pacific's listed investments are located in the Philippines and Indonesia. Accordingly, in addition to operating factors within the Company's control, the Company also has an equity market risk in respect of general investor sentiment towards these countries. Changes in the stock market indices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

	Philippine Composite Index	**Jakarta Composite Index**
At 31 December 2005	2,096.0	1,162.6
At 30 June 2006	**2,178.8**	**1,310.3**
Increase during first half of 2006	4.0%	12.7%

In January 2005, a wholly-owned Head Office subsidiary company issued a zero coupon 5-year US$199 million Exchangeable Notes guaranteed by the Company. Exchangeable Notes with face amount of US$7.5 million were settled during the first half of 2006, leaving an outstanding principal amount of US$191.5 million. The holders of the Exchangeable Notes have the right to exchange the Exchangeable Notes to the underlying approximately 3.6 per cent interest in PLDT and the Company has the option to settle such exchange obligation in cash or shares in PLDT. Pursuant to HKAS 39 "Financial Instruments: Recognition and Measurement", the exchange option embedded in the Exchangeable Notes is subject to mark-to-market fair value accounting which has a strong correlation to the changes in PLDT share price and generated a non-cash accounting loss of US$2.1 million in the first half of 2006. The change of such option liability is economically hedged by a corresponding change in the value of PLDT shares held by the Group generally and specifically with respect to the approximately 3.6 per cent PLDT shares underlying the Exchangeable Notes. Such a natural hedge and the corresponding change in value of the Group's shareholding in PLDT, however, is not to be reflected in the Group's financial results under HKAS "28 Investments in Associates" as the Group's investments in and results of PLDT are equity accounted for.

During the first half of 2006, the Group purchased a 1.1 per cent interest in PLDT for US$73.7 million and designated them as financial assets at fair value through profit or loss to both provide additional economic hedge against the changes in option liability and to enhance the Group's strategic shareholding in PLDT. The change in fair value of such interest in PLDT resulted in the Group recording an accounting loss of US$3.3 million during such period.

Interest Rate Profile



	US$ millions
Fixed	573.9
Variable	580.7
Total	**1,154.6**

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[(i)]	**Net debt**
Head Office	300.9	49.3	(120.4)	**229.8**
Indofood	236.8	525.5	(189.1)	**573.2**
Metro Pacific/MPIC	36.2	5.9	(4.8)	**37.3**
Total	573.9	580.7	(314.3)	**840.3**

Associated

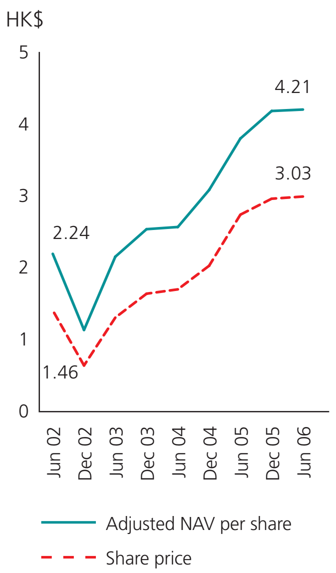
US$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents	**Net debt**
PLDT	1,260.1	447.2	(488.8)	**1,218.5**

(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	**0.5**
Indofood	525.5	5.3	**1.9**
Metro Pacific/MPIC	5.9	0.1	**–**
PLDT	447.2	4.4	**0.7**
Total	1,027.9	10.3	**3.1**

Share Price vs Adjusted NAV Per share



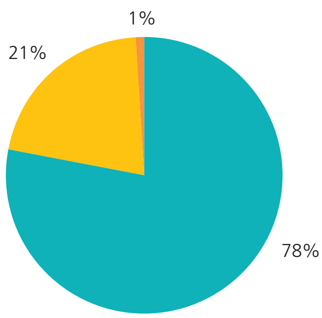
Adjusted NAV Per Share

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

US$ millions	*Basis*	**At 30 June 2006**	At 31 December 2005
PLDT	(i)	**1,551.5**	1,491.5
Indofood	(i)	**416.0**	407.0
MPIC	(ii)	**15.5**	–
Level Up	(ii)	**15.0**	15.0
Head Office			
– Net debt		**(229.8)**	(152.6)
– Derivative liability	(iii)	**(39.2)**	(39.3)
Total Valuation	(iv)	**1,729.0**	1,721.6
Number of Ordinary Shares in Issue (millions)		**3,189.3**	3,188.8
Value per share			
– U.S. dollar		**0.54**	0.54
– HK dollars		**4.21**	4.21
Company's closing share price (HK$)		**3.03**	3.00
Share price discount to HK$ value per share (%)		**28.0**	28.7

(i) Based on quoted share prices as at 30 June 2006 and 31 December 2005 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.

Adjusted NAV by Country 30 June 2006



	US$ millions
Philippines	1,567.0
Indonesia	416.0
Others	15.0
Total	**1,998.0**

Employee Information

The following information relates to the Head Office and its subsidiary companies.

For the six months ended 30 June US$ millions	**2006**	2005
Employee Remuneration (including Directors' Remuneration)		
Basic salaries	**66.0**	56.6
Bonuses	**8.7**	5.5
Benefits in kind	**19.6**	15.6
Pension contribution	**9.0**	3.2
Retirement and severance allowances	**5.0**	6.7
Equity-settled share option expense	**1.4**	3.4
Total	**109.7**	91.0

	2006	2005
Number of Employees		
– At 30 June	**46,874**	47,438
– Average for the period	**46,742**	48,292

For details regarding the Group's remuneration policies for Directors and senior executives, please refer to page 43 of the Company's 2005 Annual Report.