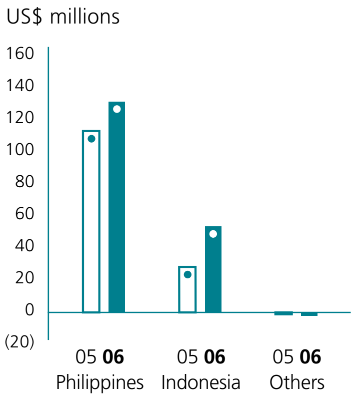
Review of Operations

Contents

First Pacific

Contribution by Country



Contribution Summary

For the year ended 31 December US$ millions	Turnover 2006	Turnover 2005	Contribution to Group profit[(i)] 2006	Contribution to Group profit[(i)] 2005 (Restated)[(ii)]
PLDT[(iii)]	**–**	–	**138.2**	122.4
Indofood	**2,398.5**	1,923.4	**54.7**	29.6
MPIC/Metro Pacific	**76.3**	62.7	**(3.7)**	(6.0)
Level Up[(iii)]	**–**	–	**(1.9)**	(1.5)
From operations	**2,474.8**	1,986.1	**187.3**	144.5
Head Office items:				
– Corporate overhead			**(13.7)**	(11.5)
– Net interest expense			**(22.9)**	(20.3)
– Other expenses			**(0.8)**	(5.3)
Recurring profit			**149.9**	107.4
Foreign exchange and derivative losses[(iv)]			**(51.5)**	(18.5)
Non-recurring items[(v)]			**66.1**	14.1
Profit attributable to equity holders of the parent			**164.5**	103.0

(i) After taxation and minority interest, where appropriate.
(ii) To conform with the Group's current year results presentation, the Group has restated its 2005 profit contribution from PLDT from US$132.2 million to US$122.4 million, which reflects the reclassification of recognized Piltel's deferred tax assets and accelerated depreciation on fixed line network due to Next Generation Network (NGN) upgrade as non-recurring items. Accordingly, the Group's non-recurring items for 2005 is restated from US$4.3 million to US$14.1 million. Such restatements have no effect on the Group's 2005 profit attributable to equity holders of the parent.
(iii) Associated companies.
(iv) 2006's foreign exchange and derivative losses include a US$89.7 million (2005: US$25.4 million) loss on revaluation of option element embedded in Head Office's Exchangeable Notes, partly offset by a US$31.2 million (2005: Nil) gain 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$7.0 million (2005: US$6.9 million) gains on foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and derivative contracts.
(v) 2006's non-recurring gains of US$66.1 million mainly comprise a gain on divestment of the Group's interest in PLDT of US$58.2 million on settlement of certain Head Office's Exchangeable Notes with PLDT shares and a gain on dilution upon conversion of PLDT's convertible preference shares of US$38.7 million, partly offset by impairment provisions for certain of the Group's assets. 2005's non-recurring gains of US$14.1 million mainly comprise PLDT's net non-recurring items (which represent recognition of Piltel's deferred tax assets less accelerated depreciation on the fixed line network due to NGN upgrade) of US$9.8 million, goodwill compensation received by Indofood in connection with the establishment of a joint venture entity of US$4.8 million and Metro Pacific's adjustments made to amounts owed to Pacific Plaza Towers contractor, partly offset by a loss on dilution of the Group's interest in PLDT of US$6.3 million.

During the year, the Group's turnover increased by 24.6 per cent to US$2,474.8 million (2005: US$1,986.1 million), principally reflecting an increase in Indofood's turnover and a strengthened rupiah. The Group's businesses improved their operating performance in 2006, recording profit contributions totaling US$187.3 million (2005: US$144.5 million), an increase of 29.6 per cent. Recurring profit also increased by 39.6 per cent to US$149.9 million from US$107.4 million in 2005. The Group recorded US$51.5 million (2005: US$18.5 million) net foreign exchange and derivative losses and US$66.1 million (2005: US$14.1 million) of net non-recurring gains. As a result, the Group recorded a net profit for 2006 of US$164.5 million, a 59.7 per cent improvement over 2005's net profit of US$103.0 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.

Exchange rates against the U.S. dollar At 31 December	**2006**	2005	One year change
Closing			
Peso	**49.06**	53.09	+8.2%
Rupiah	**9,020**	9,830	+9.0%

Exchange rates against the U.S. dollar For the year ended 31 December	**2006**	2005	One year change
Average			
Peso	**51.16**	54.99	+7.5%
Rupiah	**9,148**	9,756	+6.6%

In 2006, the Group recorded net foreign exchange and derivative losses of US$51.5 million (2005: US$18.5 million), which may be further analyzed as follows:

US$ millions	**2006**	2005
Head Office	**(59.4)**	(25.4)
PLDT	**4.7**	12.8
Indofood	**3.8**	(6.1)
Others	**(0.6)**	0.2
Total	**(51.5)**	(18.5)

- Principal investments, PLDT and Indofood, have performed above expectations
- First Pacific has increased activity and contact with the investment community over the last twelve months
- Completed the reorganization and recapitalization of Metro Pacific with the relisting on Philippine Stock Exchange in December 2006
- The company has raised in excess of US$1 billion at competitive rates to fund acquisitions over the last twelve months

In February 2007, the Group completed the acquisition of an additional approximately 46 per cent interest in Philippine Telecommunications Investment Corporation from the Philippine Government for a consideration of Pesos 25.2 billion (approximately US$510.6 million). This represented approximately 6.4 per cent interest in PLDT, thereby raising the Group's shareholding in PLDT to approximately 29 per cent. The transaction was financed with a combination of US$90.6 million from internal resources and US$420 million of borrowings.

PLDT has been a strategic investment of the Group since 1998. It has reported outstanding performances over the last few years and is a major earnings and dividend contributor to the Group. The Group will continue to benefit from the strong performance of PLDT.

Indofood has achieved significant sales volume growth across all of its divisions and this has resulted in a significant improvement in net income, an improvement in operating return and a strengthening of its balance sheet.

The Group made an investment in infrastructure sector through its subsidiary MPIC. MPIC partnered with DMCI Holdings, Inc. and won an auction of an 84 per cent interest in Maynilad Water Services, Inc. for a total consideration of US$532.8 million from the Philippine Government. The transaction was completed in January 2007.

2007 Outlook

First Pacific has focused on enhancing the operational and financial performance of its key operating businesses over the last few years. The improved results in 2006 are the product of this intense and concentrated effort. It is anticipated that 2007 performance will be stronger than 2006.

The emerging markets in Asia continue to present opportunities in the telecoms, consumer food products and infrastructure sectors. These opportunities will be pursued and evaluated and with a continuing positive outlook for the financial markets, a variety of financial options will be available to support targeted investments.

More specifically, the economic outlook for both the Philippines and Indonesia is encouraging and we anticipate that PLDT, Indofood and MPIC will build on the achievements of the last twelve months and continue to expand their businesses and match, if not exceed, their performance targets for 2007.

PLDT

PLDT's operations are principally denominated in peso, which averaged Pesos 51.16 (2005: 54.99) 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 based largely on 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.

Peso millions	**2006**	2005 (Restated)
Net income under Philippine GAAP[(i)]	**35,116**	34,112
Preference dividends[(ii)]	**(456)**	(1,427)
Net income attributable to common shareholders	**34,660**	32,685
Differing accounting treatments[(iii)]		
– Reclassification of non-recurring items	**(2,559)**	(2,207)
– Others	**(1,081)**	(336)
Intragroup items[(iv)]	**300**	300
Adjusted net income under Hong Kong GAAP	**31,320**	30,442
Foreign exchange and derivative gains[(v)]	**(1,042)**	(2,859)
PLDT's net income as reported by First Pacific	**30,278**	27,583
US$ millions		
Net income at prevailing average rates for 2006: Pesos 51.16 and 2005: Pesos 54.99	**591.8**	501.6
Contribution to First Pacific Group profit, at an average shareholding of 2006: 23.4% and 2005: 24.4%	**138.2**	122.4

(i) PLDT has restated its recurring income for 2005 from Pesos 31,253 million to Pesos 29,046 million after reclassifying Pesos 7.3 billion deferred tax assets and benefits (recognized after Piltel has established a history of taxable profits) and Pesos 5.1 billion additional accelerated depreciation expenses due to migration to NGN as non-recurring items.

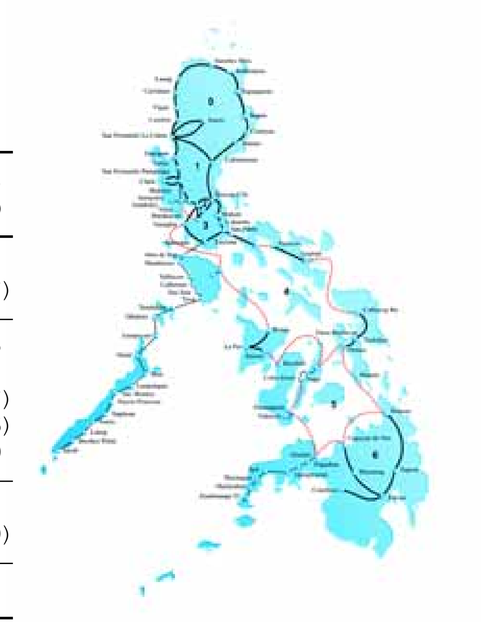
(ii) First Pacific presents net income after deduction of preference dividends.

(iii) Differences in accounting treatment under Philippine 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. In 2006, Pesos 5.5 billion (2005: Pesos 7.3 billion) deferred tax assets and benefits, Pesos 3.5 billion (2005: Nil) reversal of provisions for an onerous contract relating to ACeS satellite, Pesos 5.1 billion (2005: Pesos 5.1 billion) additional accelerated depreciation expenses due to migration to NGN and Pesos 1.4 billion (2005: Nil) asset impairment provisions were excluded and presented separately as non-recurring items.

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

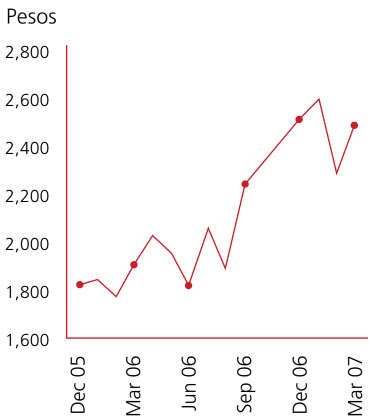
(v) To illustrate the underlying operational results and profit contributions, foreign exchange and derivative gains (net of related tax) are excluded and presented separately.

PLDT's Domestic Fiber Optic Network Map



- Toll / Relay / Fiber Optic Station
- Fiber Optic Cable (Inland)
- Fiber Optic Cable (Submarine)
- Digital Radio Link

Share Price Performance



An analysis of PLDT's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

	Turnover			Profit		
US$ millions	**2006**	2005	% change	**2006**	2005 (Restated)	% change
Wireless	**1,532.2**	1,357.9	+12.8	**777.1**	714.6	+8.7
Fixed Line	**960.5**	903.0	+6.4	**319.5**	275.2	+16.1
ICT*	**127.9**	53.7	+138.2	**2.9**	1.8	+61.1
Inter-segment elimination	**(174.4)**	(113.3)	+53.9	**–**	–	–
Total	**2,446.2**	2,201.3	+11.1			
Segment result				**1,099.5**	991.6	+10.9
Net borrowing costs				**(178.8)**	(219.1)	-18.4
Share of profits less losses of associates				**(1.4)**	0.1	–
Profit before taxation				**919.3**	772.6	+19.0
Taxation				**(314.3)**	(238.6)	+31.7
Profit for the year				**605.0**	534.0	+13.3
Minority interest				**(4.3)**	(6.7)	-35.8
Profit attributable to equity holders				**600.7**	527.3	+13.9
Preference dividends				**(8.9)**	(25.7)	-65.4
Profit attributable to ordinary shareholders				**591.8**	501.6	+18.0
Average shareholding (%)				**23.4**	24.4	–
Contribution to group profit				**138.2**	122.4	+12.9

* Information and Communications Technology

PLDT's profit contribution to the Group increased by 13 per cent to US$138.2 million (2005 restated: US$122.4 million) representing 74 per cent of First Pacific's aggregate profit contribution from operations of subsidiary and associated companies in 2006.

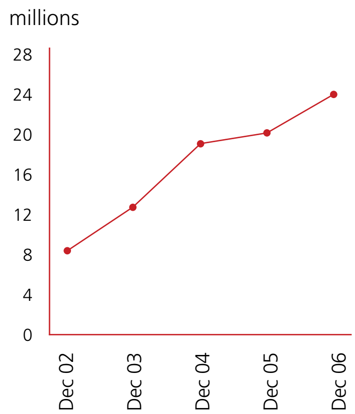
In peso terms, PLDT's consolidated net income increased by 3 per cent to Pesos 35.1 billion (US$686.1 million). The positive impact from the reversal of Pesos 3.5 billion (US$68.4 million) (2005: Nil) provisions made to ACeS related contracts was offset by an additional net depreciation expense of Pesos 5.1 billion (US$99.7 million) (2005: Pesos 5.1 billion; US$92.7 million) in relation to the upgrading of the existing fixed line network to NGN, lower net foreign exchange gains of Pesos 1.0 billion (US$19.5 million) (2005: Pesos 2.9 billion; US$52.7 million), asset impairment charges of Pesos 1.4 billion (US$27.4 million) (2005: Nil) for Mabuhay's satellite and debt investments made by ePLDT, and lower recognition of deferred tax assets amounting to Pesos 5.5 billion (US$107.5 million) (2005: Pesos 7.3 billion; US$132.8 million).

Core net income increased by 9 per cent to Pesos 31.5 billion (US$615.7 million) reflecting improvements in the key areas of the business. Consolidated service revenues increased to Pesos 125.1 billion (US$2,446.2 million) (2005: Pesos 121.1 billion; US$2,201.3 million) mainly due to higher revenue contributions from its Wireless and Information and Communications Technology (ICT) units and partly offset by the 7 per cent appreciation of the peso on PLDT Group's U.S. dollar linked revenues. Consolidated EBITDA improved to Pesos 79.6 billion (US$1,555.9 million) (2005: Pesos 77.2 billion; US$1,403.9 million) and EBITDA margin was stable at 64 per cent of service revenues.

Consolidated free cash flow remained strong at Pesos 33.7 billion (US$658.7 million) (2005: Pesos 51.2 billion; US$931.1 million) despite consolidated capital expenditure rising by 41 per cent to Pesos 21.1 billion (US$412.4 million) (2005: Pesos 15.0 billion; US$272.8 million) as a result of the development of the 3G network and upgrading to 150,000 IP-based Next Generation Network (NGN) lines.

Consolidated debt was reduced by US$362 million (2005: US$713 million). At the end of 2006, total debt and net debt were reduced to US$1.8 billion and US$1.2 billion respectively. Net debt to EBITDA and net debt to free cash flow ratios improved to 0.7 time and 1.6 times respectively.

Smart GSM Systemwide Subscriber Numbers



As a result of PLDT's initiatives to transform to next generation communication services, the contribution of its total wireless and fixed line data services and ICT business increased to 45 per cent of consolidated service revenues in 2006 compared with 40 per cent in 2005. Consolidated data and ICT revenues grew by 18 per cent to Pesos 56.4 billion (US$1,102.4 million) which more than compensated for the decline in traditional voice revenues.

PLDT declared a final dividend of Pesos 50 (US$1) per share for the year. Total dividends for 2006 reached Pesos 100 (US$2) (2005: Pesos 70; US$1.3) per share, equivalent to a 60 per cent payout of its consolidated core earnings.

Wireless Smart's and Piltel's consolidated wireless service revenues increased by 5 per cent to Pesos 78.4 billion (US$1,532.4 million) (2005: Pesos 74.7 billion; US$1,358.4 million) principally from the sustained growth in data revenue and the subscriber base. Consolidated wireless EBITDA increased by 5 per cent to Pesos 50.3 billion (US$983.2 million) (2005: Pesos 48.0 billion; US$872.9 million) resulting from Smart's control of cash operating expenses, while EBITDA margins remained stable at 64 per cent.

Smart continued its multi-segment approach and introduced various innovative and competitive top-up packages to stimulate usage and to improve network efficiency. Text promotions were led by *All Text* packages – *All Text 10 Bonus* offers 15 messages without expiration at Pesos 12 (US$0.2) while *All Text 20* allowed 100 on-network messages for Pesos 20 (US$0.4) in one day; voice promotions included *Tipid Talk* which allows a subscriber to make four calls of up to 30 seconds each for local on-network calls for one day at Pesos 10 (US$0.2). In 2006, PLDT's cellular networks served 238 billion (2005: 96 billion) text messages which is equivalent to approximately 650 million per day. Smart's current cellular network is capable of handling 1 billion text messages per day.

In addition to the *Smart 25⁸* and *All Text* series packages and promotions, Smart introduced an expanded version of *All Text – LAHATxt*, a top-up service which offers a bundle of text messages to all networks. These offers are expected to further improve usage and customer loyalty.

Smart and Piltel's *Talk 'N Text* combined GSM subscriber base grew by 3.8 million to 24.2 million (31 December 2005: 20.4 million) representing approximately 58 per cent of the total cellular market in the Philippines. PLDT's cellular subscriber base further increased to over 25 million at the end of February 2007. At the end of 2006, the cellular penetration rate in the Philippines was approximately 48 per cent.

Smart's wireless broadband service *Smart Bro's* subscriber base increased by 96,000 to about 122,000 as at year end. Its extensive broadband network is supported by approximately 2,500 related base stations located all over the Philippines which provide high speed access to internet services.

During 2006, Smart launched its 3G service on the widest 3G network in the Philippines. Its 3G services enables Smart-to-Smart video calls, video streaming, high-speed Internet browsing, video clip downloading, ring tones, visual ringers and games at rates in line with its existing 2G services.

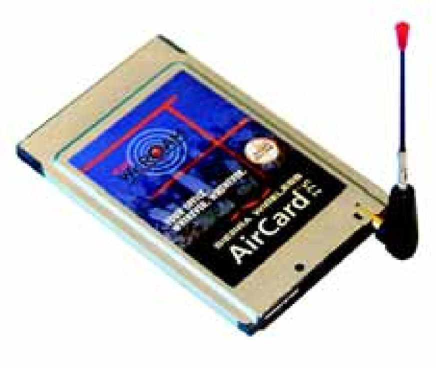
The future revenue growth of the wireless business is no longer limited to the domestic market. As part of GSM Association's global mobile money transfer program, Smart plans to launch a range of more affordable remittance services in the Middle East and Europe through its existing mobile-based financial services platform.

Fixed Line Fixed Line service revenues slightly decreased, in pesos terms, to Pesos 49.1 billion (US$959.7 million) (2005: Pesos 49.7 billion; US$903.8 million) resulting from the reduction in revenues of the local exchange and international long distance call service revenues partly due to the 7 per cent year-on-year appreciation of the peso, slightly offset by the increase in corporate data and residential digital subscriber line (DSL) data services revenues. Fixed Line EBITDA slightly decreased to Pesos 28.4 billion (US$555.1 million) (2005: Pesos 28.6 billion; US$520.1 million). EBITDA margins remain stable at 58 per cent.

PLDT's retail DSL and *Vibe* dial-up Internet service accelerated growth with consolidated revenues significantly improving by 32 per cent to Pesos 3.5 billion (US$68.4 million) (2005: Pesos 2.7 billion; US$49.1 million) which accounted for 68 per cent of PLDT Group's broadband and internet revenues. In 2006, retail DSL's broadband subscribers grew by 44,000 to 133,000 while *Vibe* dial-up internet service subscribers increased by 30,000 to 297,000.

PLDT plans to accelerate the upgrading of its Fixed Line facilities to NGN while continuing to promote Smart's wireless broadband offering in areas currently not covered by PLDT fixed line facilities. PLDT Group's comprehensive approach to promote broadband allowed its total broadband and internet revenues to increase by 49 per cent to Pesos 5.2 billion (US$101.6 million) as the combined retail DSL and wireless broadband subscriber base doubled to 265,000. The upgrade to NGN enables PLDT to expand its fixed line coverage and enhance its capability to provide a wider range of data and other next generation communication services.

Information and Communications Technology (ICT) ePLDT service revenues more than doubled to Pesos 6.5 billion (US$127.1 million) (2005: Pesos 3.0 billion; US$54.6 million) resulting from an increase in capacity utilization and billable hours of the call center group Ventus and the consolidation of SPi Technologies, Inc. (SPi) which was acquired by ePLDT in July 2006. Ventus' growth continued in 2006 and call centers contributed Pesos 2.6 billion (US$50.8 million) or 40 per cent to ePLDT's service revenues. The call center group now employs 6,300 staff members and operates 5,600 seats in eight locations.



In July 2006, PLDT expanded its business portfolio to the global business process outsourcing (BPO) market by acquiring the full ownership of SPi for a consideration of US$135 million. SPi is ranked as the world's second largest pure-play BPO service provider and the ninth largest independent BPO company. Recently, it ranked fourth of the global "Top Best BPO Providers" and in the top five of "Top Leaders in Human Capital Development" by CMP/Cybermedia. It has operations in 19 locations in North America, Europe and Asia with its principal businesses being in the healthcare, legal and publishing markets. SPi has a total of 3,700 seats of which 80 per cent are located in the Philippines and the balance in India and Vietnam.

The call center and BPO businesses have seats of approximately 9,300 (2005: call center of 3,347 seats) and staff of 12,000. ePLDT will further develop the growth potential of these two businesses by offering a wide range of voice and data services to the international market.

ePLDT accelerated its gaming content development for both fixed line broadband and wireless businesses by acquiring a 60 per cent interest in Level Up! Philippines, and a 25.5 per cent interest in PhilWeb which is an internet-based gaming company. The merger of Level Up! Philippines and ePLDT's netGames commenced in October 2006 and the consolidation of this is expected to be completed in the first half of 2007. ePLDT has a 60 per cent market share in this segment.

2007 Outlook

The PLDT Group's transformation into a diversified telecoms conglomerate is continuing. This transformation involves the continued upgrade of the network, a re-engineering of processes and reorientation of employees, the integration of various fixed line and wireless platforms, such that products and services can be transformed for the delivery of the next generation services which combine connectivity with compelling content and innovative applications.

In 2006, the PLDT Group's results showed the beginning of this transformation as it rolled out NGN, 3G and wireless broadband. In 2007, the PLDT Group will focus on the integration of its billing and information technology platforms, maximizing its existing platforms in order to roll out services cost-effectively to various markets. The move to NGN allows the PLDT Group to expand its coverage, capacity and capability to enhance further and add value to its services and products in the years to come.

The PLDT Group will accelerate the expansion of call center and BPO businesses through Ventus and SPi in order to increase its participation in the growing global outsourcing business, as well as diversifying its revenue base and extending its services into the international market.

PLDT management expects the strong performance to continue in 2007 with sustainable core earnings and cash flows. For 2007, it plans to invest capital expenditure of between Pesos 20 and 22 billion (US$407.7 million to US$448.4 million) in its existing businesses. PLDT is committed to improving shareholder returns by increasing its dividend payout to 70 per cent of 2007 core earnings.

Indofood


CAKRA KEMBAR
La Fonte
Indofood
IndoMie
Mi goreng
Pop MIE
CHITATO
Simas
Bimoli

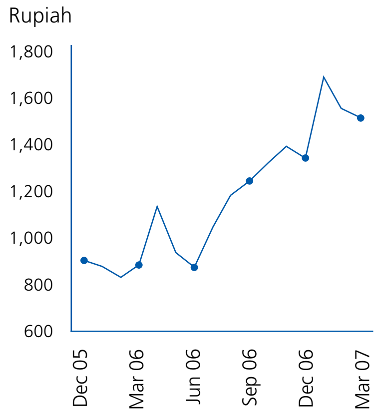
Indofood's operations are principally denominated in rupiah, which averaged Rupiah 9,148 (2005: 9,756) to the U.S. dollar. Its financial results are prepared under Indonesian GAAP and reported in rupiah. First Pacific's financial results are prepared under Hong Kong GAAP and reported in U.S. dollar. Accordingly, certain adjustments need to be made to Indofood's reported rupiah results to ensure compliance with Hong Kong GAAP. An analysis of these adjustments follows.

Rupiah billions	**2006**	2005
Net income under Indonesian GAAP	**661**	124
Differing accounting treatments(i)		
– Reclassification of non-recurring items	**105**	55
– Gain on revaluation of plantations	**275**	67
– Foreign exchange accounting	**54**	54
– Others	**(56)**	(75)
Adjusted net income under Hong Kong GAAP	**1,039**	225
Foreign exchange and derivative (gains)/losses(ii)	**(67)**	335
Indofood's net income as reported by First Pacific	**972**	560
US$ millions		
Net income at prevailing average rates for 2006: Rupiah 9,148 and 2005: Rupiah 9,756	**106.3**	57.4
Contribution to First Pacific Group profit, at an average shareholding of 2006: 51.5% and 2005: 51.5%	**54.7**	29.6

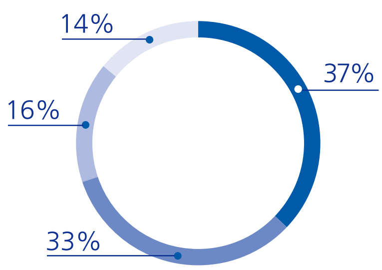
(i) Differences in accounting treatment under Indonesian GAAP, compared with Hong Kong GAAP. The principal adjustments include:
- Reclassification of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 2006 of Rupiah 105 billion represents Rupiah 62 billion of manpower rightsizing costs, 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 14 billion impairment provisions for goodwill. Adjustment for 2005 of Rupiah 55 billion represents Rupiah 146 billion of manpower rightsizing costs, partly offset by Rupiah 91 billion goodwill compensation received in connection to the establishment of a joint venture entity.
- 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 change in fair value of plantations during the year.
- 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.

Share Price Performance



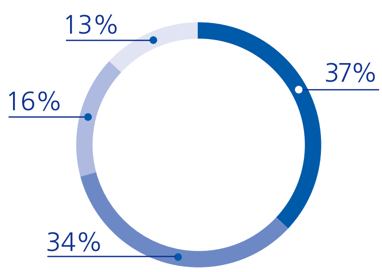
Turnover 2006*



	US$ millions
Consumer Branded Products	890.2
Bogasari	796.4
Edible Oil & Fats	369.4
Distribution	342.5
Total	**2,398.5**

**After inter-segment elimination*

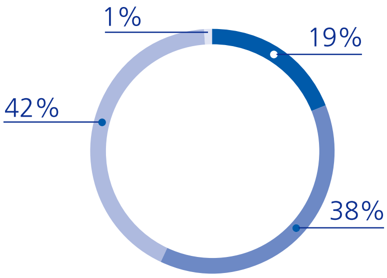
Turnover 2005*



	US$ millions
Consumer Branded Products	703.8
Bogasari	662.2
Edible Oil & Fats	314.6
Distribution	242.8
Total	**1,923.4**

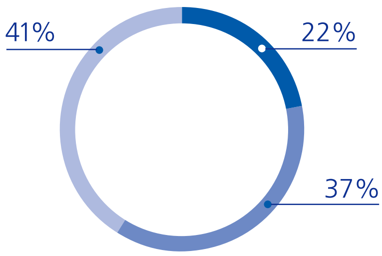
**After inter-segment elimination*

Operating Profit 2006



US$ millions
- Consumer Branded Products 50.2
- Bogasari 103.9
- Edible Oil & Fats 114.0
- Distribution 2.4
- **Total** **270.5**

Operating Profit 2005



US$ millions
- Consumer Branded Products 42.2
- Bogasari 73.0
- Edible Oil & Fats 81.6
- Distribution 0.5
- **Total** **197.3**

An analysis of Indofood's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

	Turnover			Profit		
US$ millions	**2006**	2005 (Restated)(i)	% change	**2006**	2005 (Restated)(i)	% change
Consumer Branded Products	**923.4**	730.3	+26.4	**50.2**	42.2	+19.0
Bogasari	**983.5**	812.1	+21.1	**103.9**	73.0	+42.3
Edible Oils & Fats	**550.0**	474.9	+15.8	**114.0**	81.6	+39.7
Distribution	**342.5**	242.8	+41.1	**2.4**	0.5	+380.0
Inter-segment elimination	**(400.9)**	(336.7)	+19.1	**–**	–	–
Total	**2,398.5**	1,923.4	+24.7			
Segment result				**270.5**	197.3	+37.1
Net borrowing costs				**(82.6)**	(84.8)	-2.6
Share of profits less losses of associates				**(0.4)**	(4.2)	-90.5
Profit before taxation				**187.5**	108.3	+73.1
Taxation				**(64.3)**	(38.5)	+67.0
Profit for the year				**123.2**	69.8	+76.5
Minority interest				**(68.5)**	(40.2)	+70.4
Contribution to group profit				**54.7**	29.6	+84.8

(i) Principally restated for Bogasari division's inter-segment sales to Noodles division from a cost basis to a market price basis

Indofood contributed US$54.7 million to the Group, an increase of 84.8 per cent over its 2005 contribution of US$29.6 million. This resulted from an increase in sales volume, an incremental gain in the fair value of plantations and a seven per cent appreciation in the average exchange rate of the rupiah against the U.S. dollar. Indofood reported a 24.7 per cent increase in consolidated revenue in U.S. dollar terms to US$2,398.5 million (2005: US$1,923.4 million) and a 16.9 per cent increase in rupiah terms to Rupiah 21,941.6 billion reflecting the successful implementation of strategic initiatives in marketing and the expansion of its stock point distribution system.

Operating profit increased by 37.1 per cent to US$270.5 million (2005: US$197.3 million) as a result of significantly increased sales volumes and the positive impacts from operational and cost efficiency programs. EBIT margin improved slightly to 9.0 per cent from 8.9 per cent. Consolidated net debt was reduced by 6.9 per cent in rupiah terms to Rupiah 5,456.6 billion. In U.S. dollar terms, however, net debt rose slightly by 1.5 per cent to US$604.7 million due to the nine per cent appreciation of the rupiah against the U.S. dollar. Net gearing improved to 1.11 times from the previous year's 1.36 times.

In 2006, Indofood retained the market leadership in most of its key product categories: a 77 per cent share of the instant noodles market; a 67 per cent share of flour market; a 43 per cent share of branded cooking oil market; and a 59 per cent share of the margarine and shortening market.

Consumer Branded Products

Noodles Indofood is the market leader in Indonesia, as well as the world's largest instant noodle producer. Its most popular brands include *Indomie, Sarimi, Supermi, Sakura and Pop Mie*. With 14 production facilities located across Indonesia, Indofood plans to increase an annual production capacity to approximately 15 billion packs from 13.5 billion packs. In 2006, production utilization increased to 84 per cent from the previous year's 70 per cent.

Turnover increased by 26.5 per cent to US$801.4 million reflecting the significant increase in sales volume, and an improved sales mix with higher value products. EBIT margin declined to 3.7 per cent from the previous year's 3.8 per cent (restated for Bogasari division's inter-segment sales to Noodles division from a cost basis to a market price basis), due to increased raw materials, higher fuel and promotion costs. Sales volume increased by 18.6 per cent to 11.3 billion packs reflecting the benefits of segment specific promotion programs, new product introductions and the enhanced distribution system.

The consumption per capita of instant noodles is expected to increase as the price per serving of instant noodles is relatively cheaper to other staple food in Indonesia. To meet this higher demand, Indofood plans to expand the production capacity of the noodles division. Brand equity building and cost efficiency programs are ongoing.

Food seasoning products include soy sauce, chili and tomato sauces, a range of powdered condiments, instant recipe mixes and syrups. The company's joint venture with Nestlé S.A., PT Nestlé Indofood Citarasa Indonesia, provides expertise in marketing and improved manufacturing processes to market the culinary branded products of Indofood and Nestlé. The market share of key products has increased; soy sauce to 13 per cent from 12 per cent, chili sauce to 37 per cent from 30 per cent and syrup doubled to 4 per cent.

Turnover increased by 30.3 per cent to US$39.6 million as a result of a 17.4 per cent improvement in sales volume to 51.8 thousand tons and a slight increase in the average selling price. The significant growth was driven by market specific promotion programs and the introduction of new products. EBIT margin improved to 3.6 per cent from a negative 7.1 per cent in 2005 reflected improved sales and cost efficiencies.

For 2007, the food seasoning division will increase its production capacity to cater for the growth in market share of its key products. It will continue its efforts to build brand equity and to strengthen customer loyalty through various specific promotion programs.

Indofood is the leading manufacturer of western style ***snack foods*** in Indonesia. It produces potato chips and extruded products such as puffs and chocolate-coated snacks, which are sold under popular brands, such as *Chitato, Lays, JetZ, Cheetos, Chiki and Tenny.*

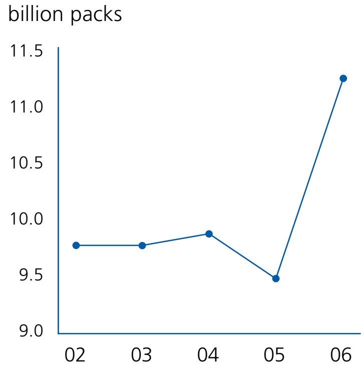
Turnover increased by 38.2 per cent to US$42.7 million as a result of higher sales volumes and a higher average selling price. Sales volume grew by 30.4 per cent to 9,293 tons driven by substantial sales growth of *Chitato* and *Lays* potato chips and a new product *Cheetos Shots.* EBIT margin improved to 4.2 per cent from 4.0 per cent reflecting production and raw material supply efficiencies.

For 2007, this division will continue its segment specific marketing and brand building programs for all of its products. Sales growth will be enhanced through increased access to the distribution network and the introduction of new products and new packaging.

Indofood's ***nutrition and special food*** division currently produces food for babies, children and expectant mothers under two major brands. *Promina* caters to the upper-middle segment, while *SUN* is the market leader in the lower-middle segment. It also produces products for institutions.

Turnover increased by 11.2 per cent to US$39.7 million as a result of higher volume of sales to consumers, an increase in average selling price and improved sales management through the enhanced distribution system. With a significant reduction in institutional sales, total sales volume declined to 12.8 thousand tons from 14.8 thousand tons. However, the sales volume of *Promina* and *SUN* increased by 19.8 per cent. EBIT margin declined to 7.0 per cent from 8.9 per cent in 2005 reflecting an increase in advertising and promotion expense.

Noodles Sales Volume



For 2007, Indofood plans to increase production lines to meet the increase in demand for commercial products as recent increases in the commodity prices. It will continue to leverage the enhanced distribution system, introduce new categories and flavors to match consumers' preferences and further strengthen brand image.

Bogasari

This division comprises flour milling and pasta production. Bogasari can support an annual production capacity of 3.8 million tons of flour and its products are distributed, among others, under the *Cakra Kembar, Segitiga Biru* and *Lencana Merah* brand names.

In 2006, the wheat price increased substantially given the poor harvest and higher global consumption. Turnover increased by 21.1 per cent to US$983.5 million as a result of ongoing marketing and customer loyalty programs. Sales volume of flour and pasta increased by 11.3 per cent to 2.6 million tons and 11.3 per cent to 27.7 thousand tons, respectively. EBIT margin improved to 11.4 per cent from 9.3 per cent (restated for Bogasari division's inter-segment sales to Noodles division from a cost basis to a market price basis) despite substantial increase in wheat price and higher freight/fuel prices.

For 2007, wheat prices are expected to rise as global consumption outpaces production and the climatic conditions will further reduce the wheat harvest. However, Bogasari's leverage of its industry competence and extensive distribution network together with the cost benefits of its own vessels and ports will enable it to maintain its market leadership position despite increased competition. It will continue to grow the small and medium enterprise segments by launching a series of marketing programs.

Edible Oils and Fats

This division completed a comprehensive restructuring in 2006. Indofood Agri Resources Ltd. (IndoAgri) was successfully listed on the Singapore Stock Exchange in February 2007. It raised approximately US$270.8 million by issuing new placement shares representing 25 per cent of the enlarged capital of IndoAgri. The proceeds are being used to accelerate the expansion of plantations, the relocation and modernization of the Jakarta refinery, as well as the expansion of the Medan facilities.

IndoAgri is a vertically integrated agribusiness with principal activities involving research and development, oil palm seed breeding, oil palm cultivation and milling to the refining, branding and marketing of cooking oil, margarine, shortening and other palm oil derivative products. It also produces Crude Coconut Oil.

IndoAgri's consolidated net sales increased by 15.8 per cent to US$550.0 million reflecting higher Crude Palm Oil (CPO) prices, sales volume and average selling price. IndoAgri accounted for approximately 15 per cent of Indofood's consolidated sales. EBIT margin declined to 10.5 per cent from 12.9 per cent mainly due to lower margins of Commodity division as the results of the appreciation of rupiah.

IndoAgri's ***plantations*** are amongst the most productive plantations, in terms of fresh fruit bunch and extraction yield, in Indonesia and Malaysia. At the end 2006, the plantation land bank was approximately 224,100 hectares (including approximately 85,500 hectares received approval in 2006 and completed in March 2007) of which approximately 66,900 hectares are planted with oil palm trees and approximately 5,000 hectares are planted with rubber trees.

The significant increase in CPO price and higher CPO production increased plantations sales by 19.2 per cent to US$142.6 million. However, high maintenance and fuel costs reduced the EBIT margin to 41.8 per cent from 47.4 per cent.

IndoAgri plans to have 250,000 hectares of oil palm plantation by 2015. It will continue to increase its plantation land bank via acquisition. Productivity programs are ongoing which include raising the standard of plantation managerial and technical skills.

Distribution

Indofood's stock point distribution system was introduced in 2005 and has developed into the most extensive distribution network in Indonesia. Additional stock points have been established close to areas with high density of retail outlets and traditional markets. This system allows wider and deeper market penetration through a very efficient supply chain operation. The distribution group continued to generate encouraging results in 2006. It reported a 41.1 per cent increase in turnover to US$342.5 million which accounted for approximately 14 per cent of Indofood's consolidated turnover. The distribution group was a key contributor to the volume growth of Indofood's noodles and other divisions in Consumer Branded Products group. In addition to Indofood's consumer products, it also distributes an increasing volume of third party products.

For 2007, it plans to improve the information technology applications for stock points management in order to increase efficiency and support online reporting at the Indofood group level. Indofood will continue to establish additional stock points to reach the underserved market regions in Indonesia.

2007 Outlook

The industry outlook is positive for 2007. Indofood will continue to strengthen its market position by leveraging its industry competence and extensive distribution system, which together are enhanced by its cost economies and the strength of its brands. The investment in its plantation business via IndoAgri will support a more robust revenue and profit growth in the future.

Indofood's operational and cost efficiency initiatives are ongoing. It will increase automation in some production lines, improving operational and administrative processes, and reducing overall fuel cost by using alternative sources.

Indofood will reduce its foreign currency exposure and minimize the impact from fluctuation of interest rates. It announced on 3 April 2007 plans to issue a five-year fixed rate 1.5 trillion rupiah bond (approximately US$160 million) which has received an idAA+ rating with stable outlook from the rating agency, Pefindo. The offering of the bond is expected to take place in May 2007 and will be listed on the Surabaya Stock Exchange in Indonesia.

MPIC

MPIC/Metro Pacific's operations are principally denominated in peso, which averaged Pesos 51.16 (2005: 54.99) 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 both of the Philippine GAAP and Hong Kong GAAP being largely based on IFRSs, certain adjustments still need to be made to MPIC/Metro Pacific's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

Peso millions	**2006**	2005 (Restated)
Net (loss)/income under Philippine GAAP(i)	**(686)**	151
Differing accounting treatments(ii)		
– Reclassification/reversal of non-recurring items	**302**	(623)
– Revenue recognition regarding pre-completion contracts for sale of development properties	**79**	43
Adjusted net loss under Hong Kong GAAP	**(305)**	(429)
Foreign exchange and derivative losses/(gains)(iii)	**36**	(9)
MPIC/Metro Pacific's net loss as reported by First Pacific	**(269)**	(438)
US$ millions		
Net loss at prevailing average rates for 2006: Pesos 51.16 and 2005: Pesos 54.99	**(5.3)**	(8.0)
Contribution to First Pacific Group profit, at an average shareholding of 2006: 99.6% for MPIC and 77.3% for Metro Pacific and 2005: 75.5% for Metro Pacific	**(3.7)**	(6.0)

(i) MPIC/Metro Pacific has restated its net income for 2005 from Pesos 194 million to Pesos 151 million as a result of their retrospective adoption of the percentage of completion method for the accounting of certain pre-completion contracts for the sale of development properties.

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

- Reclassification/reversal of non-recurring items: Certain items, through occurrence or size, are not considered usual, operating items which are reallocated and presented separately. Adjustment for 2006 of Pesos 0.3 billion losses principally relate to provisions for a vessel and an investment in a real estate associated company. Adjustment for 2005 of Pesos 0.6 billion gains principally relate to reversal of excess provision for tax and other liabilities, gains realized from various debt reduction and restructuring exercises, and adjustments made to amounts owed to Pacific Plaza Towers contractor.
- Revenue recognition regarding pre-completion contracts for sale of development properties: Under Philippine GAAP, MPIC/Metro Pacific recognize revenue from pre-completion contracts for sale of development properties based on the percentage of completion method. HKAS 18 "Revenue" and Hong Kong Interpretation 3 "Revenue – Pre-completion Contracts for the Sale of Development Properties" requires the recognition of revenue for such contracts based on the satisfaction of certain conditions, which includes the transfer of significant risks and rewards of ownership of the properties to the buyers and the absence of continuing managerial involvement to the degree usually associated with ownership and effective control over the properties sold.

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

Maynilad Water Concession Area

An analysis of MPIC/Metro Pacific's contribution to the First Pacific Group, adjusted for Hong Kong GAAP and translated into U.S. dollars, follows.

	Turnover			Profit		
US$ millions	**2006**	2005 (Restated)	% change	**2006**	2005 (Restated)	% change
Property						
– Landco	**34.0**	17.4	+95.4	**2.6**	1.5	+73.3
– Pacific Plaza Towers	**3.1**	5.3	-41.5	**(0.3)**	0.3	–
– Other properties	**4.7**	0.2	–	**1.9**	(0.2)	–
Subtotal	**41.8**	22.9	+82.5	**4.2**	1.6	+162.5
Nenaco	**34.5**	39.8	-13.3	**(2.3)**	(3.5)	-34.3
Corporate overhead	**–**	–	–	**(1.8)**	(2.1)	-14.3
Total	**76.3**	62.7	+21.7			
Segment result				**0.1**	(4.0)	–
Net borrowing costs				**(1.5)**	(2.4)	-37.5
Share of profits less losses of associates				**0.4**	0.1	+300.0
Loss before taxation				**(1.0)**	(6.3)	-84.1
Taxation				**(1.4)**	(0.9)	+55.6
Loss for the year				**(2.4)**	(7.2)	-66.7
Minority interest				**(1.3)**	1.2	–
Group share of loss				**(3.7)**	(6.0)	-38.3

MPIC was listed on the Philippine Stock Exchange in December 2006 which represented the completion of a comprehensive reorganization plan launched in early 2006 for the Metro Pacific.

MPIC's assets comprise a 50.0 per cent interest in a joint venture company, the DMCI-MPIC Water Company Inc. (DMCI-MPIC), which holds an 84.0 per cent interest in Maynilad Water Services Inc. (Maynilad Water) and a direct 51.0 per cent interest in property developer Landco Pacific Corporation (Landco). Metro Pacific became a subsidiary of MPIC in early 2007 holding only a nominal interest of 15.3 per cent in a domestic shipping company Negros Navigation Company Inc. (Nenaco).

MPIC reported lower recurring loss of US$3.7 million in 2006 (2005: US$6.0 million) as a result of an improved contribution from Landco and a reduced loss at Nenaco. MPIC's recorded consolidated revenues of Pesos 3.9 billion (US$76.3 million), mainly reflects increased revenues from Landco, net of reduced revenues from Nenaco. MPIC's net loss in 2006 was the result of continuing losses from Nenaco and from an impairment provision of Pesos 415 million (US$8.1 million) for its investment in an associated company Costa de Madera. In December 2006, Metro Pacific disposed of 83.7 per cent of its interest in Nenaco, and has since been deconsolidated.

In December 2006, MPIC and DMCI Holdings, Inc. (DMCI), via their joint venture company, the DMCI-MPIC, acquired by way of public auction conducted by the Philippine Government an 84 per cent interest in **Maynilad Water** for a total consideration of approximately US$533 million. The consideration comprised equity and repayment of financial assistance of US$56.7 million, equity support of US$444.7 million and other costs of approximately US$32 million. Maynilad Water has a 25-year exclusive concession (with 15 years remaining) until 2022 to provide water services to approximately 540 square kilometers which includes eight cities and three multicipalities in the West Metro Manila areas. These areas have a population of eight million of which only six million are currently served with water supply services.

Maynilad Water is under a rehabilitation plan since 2005, its US$256.8 million of outstanding debt is subject to various debt and restructuring agreements. Maynilad Water presently suffers from approximately 68 per cent of its water being non-revenue generating as a result of physical water loss via leakage, illegal pipe connection and commercial losses. A special management committee is reviewing the infrastructure, the organizational and commercial problems faced by Maynilad Water. This committee's mandate is to improve the operations of the business, bringing water services of a higher quality to a greater proportion of the population served, and to develop a long term strategy for the company.

Landco is a diversified property developer in the Philippines, specializing in developing high quality second homes, leisure farms and shopping centers. Throughout 2006, Landco expanded its seaside luxury residential estates with an increased sale of lots in its Terrazas de Punta Fuego project, a complementary development to the Peninsula de Punta Fuego residential resort, golf and marina complex. Landco's expansion into the middle-income seaside residential resort segment was made through the introduction of Playa Calatagan, which is envisaged to become a 200-hectare residential, entertainment and leisure community located in the prestigious Calatagan Peninsula. Landco announced two further joint ventures for the co-development of formerly privately-held properties, with the Escudero and the Villalon families. The Escudero property is planned as a resort with tourist and medical-tourist facilities (set amidst a 400-hectare sugar estate). "Monteraza de Cebu", to be developed in conjunction with the Villalon family, is planned as the first international-standard luxury residential resort overlooking Metropolitan Cebu.

In view of the poor outlook of the domestic shipping industry, its over capacity and limited rehabilitation options, the company disposed 83.7 per cent investment in **Nenaco** for a nominal consideration to Negros Holdings and Management Corporation, a company comprising Nenaco's previous management team. Nenaco reported a higher 2006 net loss of Pesos 444 million (US$8.7 million) principally from lower revenues and an impairment provision for a vessel.

In March 2007, MPIC's Board approved the subscription of up to Pesos 750 million (US$15.3 million) five-year convertible notes to be issued by **Makati Medical Center (MMC)**, one of the premier hospitals in the Philippines. Upon conversion, MPIC's equity interest in MMC would be approximately 36 per cent of the expanded capital of MMC, and will make MPIC the single largest shareholder of MMC. This fund raising activity is part of the loan-restructuring program of MMC. The proceeds from the convertible notes will be used to build a seven storey (with five levels of basement) clinic block, diagnostics center and laboratory facilities.

MMC offers specialist treatments and currently has 1,000 specialists and 1,500 supporting staff, and until recently had a reputation as the Philippines' leading hospital complex. The infusion of new funds and the building of new facilities at MMC will ensure the hospital maintains its leading reputation.

MMC reported net income of Pesos 26 million (US$0.5 million) in 2005. An effective cost management program in 2006 resulted in an improvement in net income of Pesos 223 million (US$4.4 million).

2007 Outlook

The introduction of Ashmore Investment, a UK-based LSE-listed FTSE 250 company with US$26.8 billion in assets under management, as a strategic partner in MPIC strengthens MPIC's financial position as it seeks long-term investment opportunities in the capital intensive utility and infrastructure sectors, and positions it for an active role in the infrastructure and property sectors in the Philippines.

Maynilad Water The management is working on a proposal to release Maynilad Water from its rehabilitation status. A comprehensive strategy and action plan is being developed to ensure that safe, reliable and stable water services are delivered to a greater proportion of the concession's population and a significant reduction is achieved in both physical and commercial water losses. The company plans to invest approximately Pesos 5 billion (US$102 million) in capital expenditure in 2007 to support these objectives.

Landco should see strong sales from its development of resorts during 2007 and its entry into the Metropolitan Manila condominium market, with the introduction of "Tribeca", a multi-phase, mid-rise residential, entertainment and leisure community will also enhance profitability.

MMC is at an early stage of turnaround and expansion with its building redevelopment program is expected to be announced in the first half of the year. MMC is being positioned as a world-class health care service provider to cater to the demand for high standard health care services. As the Philippines economy improves, demand for high standard health care will increase and the growth potential of this business is further supported by promoting the Philippines as an ideal retirement and medical tourism destination.

Level Up

Level Up! International Holdings Pte. Ltd. (Level Up) reported a recurring loss attributable to the Group of US$1.9 million (2005: post acquisition recurring loss of US$1.5 million) reflecting the slower than anticipated development of the Brazil and India markets. First Pacific however, recorded 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.

Philippines Level Up's merger with ePLDT's netGames commenced in October 2006 and the consolidation of this is expected to be completed in the first half of 2007. The consolidated Philippine business has a combined market share of 70 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)). 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 increased its market reach by partnering with Coca-Cola, Solar Interactive (a leading cable television channel) and FHM (a leading men's magazine).

Brazil in addition to the popular Ragnarok, Gunz (developed by Maiet Entertainment Inc.) and Grand Chase (developed by KOG Studios) were commercially launched in 2006. RF Online was commercially launched in January 2007. Level Up widened its revenue base by distributing Ragnarok game time through a leading Brazilian internet portal. In 2006, Level Up made good progress on expanding its distribution network to reach popular street kiosks in metropolitan areas and introducing prepaid cards and CDs through leading national retail outlets.

India Ragnarok was commercially launched in March 2006. Gunz entered open beta stage in the fourth quarter of 2006 and the commercial launch will be achieved in the first half of 2007. The development of its distribution networks in key metropolitan areas was slower than planned principally due to the technical issues prevalent in the early development stage of a new market. India remains an attractive market with significant medium term potential. No significant revenues are expected in the short term.

2007 Outlook

In **the Philippines**, the merger with netGames will enlarge Level Up's distribution network and games content which will position the company for growth. The netGames content portfolio includes the popular MMORPG's Flyff (developed by AeonSoft) and Khan (developed by Mirinae), along with the casual online game Pangya (developed by Hanbitsoft, Inc.).

In **Brazil**, the focus would be promoting new games Gunz, Grand Chase and RF Online, as well as the launch of additional new titles.

In **India**, Level Up would be continuing to develop the distribution network along with identifying and launching new games which are attractive to the India market.