

Financial Review

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Liquidity and Financial Resources

Net Debt and Gearing

(A) Head Office Net Debt

The increase in net debt is mainly attributable to the payments for additional investment for 1.5 per cent interest in PLDT. The Head Office's borrowings at 31 December 2006 comprise Exchangeable Notes of US\$153.1 million (with a face value of US\$146.3 million) due in January 2010 and bank loans of US\$148.3 million (with an aggregated face value of US\$149.9 million) due between July 2011 and November 2013.

Changes in Head Office Net Debt

US\$ millions	Borrowings	Cash and cash equivalents	Net debt
At 1 January 2006	349.7	(197.1)	152.6
Movement	(48.3)	133.6	85.3
At 31 December 2006	301.4	(63.5)	237.9

Head Office Cash Flow

US\$ millions	2006	2005
Net cash inflow from operating activities	45.2	27.6
Net investments	(113.4)	(72.9)
Financing activities		
– Net borrowings	98.8	17.4
– Issue of shares upon exercise of share options	3.6	0.6
– Repayment/repurchase of secured bonds	(108.0)	(5.1)
– Dividends paid	(12.3)	(4.1)
– (Settlement)/issue of Exchangeable Notes, net of expenses	(4.4)	193.4
– Advances to subsidiaries, net	(43.1)	(1.1)
(Decrease)/increase in cash and cash equivalents	(133.6)	155.8

(B) Group Net Debt and Gearing

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

Consolidated

US\$ millions	Net debt/(cash) ⁽ⁱ⁾ 2006	Total equity 2006	Gearing (times) 2006	Net debt ⁽ⁱ⁾ 2005	Total equity 2005	Gearing (times) 2005
Head Office	237.9	1,446.3	0.16x	152.6	1,419.2	0.11x
Indofood	604.7	742.7	0.81x	595.7	541.6	1.10x
MPIC/Metro Pacific	(45.7)	19.4	-	40.2	4.8	8.38x
Group adjustments ⁽ⁱⁱ⁾	-	(1,175.6)	-	-	(1,258.9)	-
Total	796.9	1,032.8	0.77x	788.5	706.7	1.12x

Associated

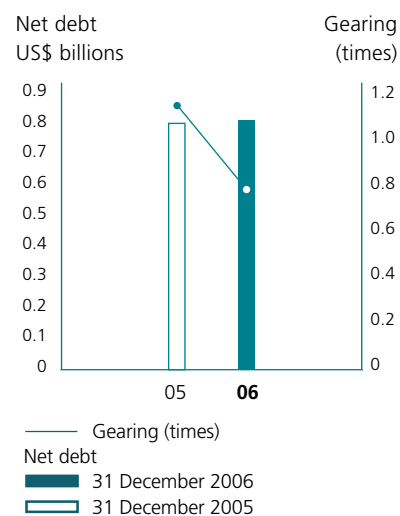
US\$ millions	Net debt 2006	Total equity 2006	Gearing (times) 2006	Net debt 2005	Total equity 2005	Gearing (times) 2005
PLDT	1,272.1	2,126.3	0.60x	1,384.2	1,400.9	0.99x

(i) Includes pledged deposits and restricted cash.

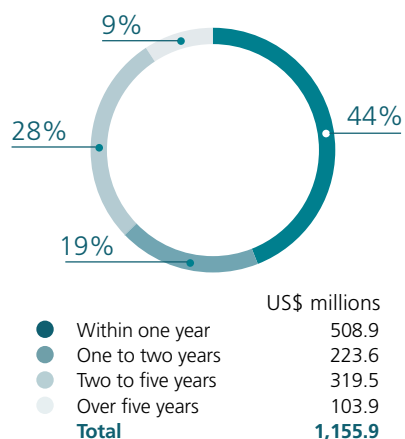
(ii) Group adjustments mainly represents elimination of goodwill arising from acquisitions prior to 1 January 2001 against the Group's accumulated losses and other standard consolidation adjustments to present the Group as a single economic entity.

Head Office's gearing increased principally because of payments for the additional investment for 1.5 per cent interest in PLDT and advances to MPIC in connection with MPIC's bidding for Maynilad Water. Indofood's gearing declined mainly because of increased total equity. MPIC/Metro Pacific changed from net debt to net cash position principally due to cash advances received from Head Office and deconsolidation of its former subsidiary company, Nenaco. PLDT's gearing declined as strong free cash flows were used to reduce debts and profits enhanced total equity.

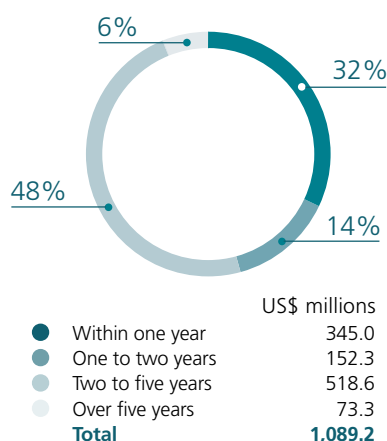
The Group's gearing continued to improve to 0.77 time level principally as a result of the growth of the Group's total equity as a result of strong profit contributions from PLDT and Indofood.

Net Debt and Gearing

Maturity Profile of Consolidated Debt 2006



Maturity Profile of Consolidated Debt 2005



Maturity Profile

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

Consolidated

US\$ millions	2006	2005
Within one year	508.9	345.0
One to two years	223.6	152.3
Two to five years	319.5	518.6
Over five years	103.9	73.3
Total	1,155.9	1,089.2

The change in Group's debt maturity profile at 31 December 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\$136.0 million) of Rupiah bonds due in June 2008, together with Head Office's redemption of US\$108.0 million secured bonds due in July 2006 and new bank loans of US\$50.0 million and US\$49.9 million due in July 2011 and November 2013, respectively.

Associated

US\$ millions	2006	PLDT 2005
Within one year	336.9	354.2
One to two years	158.3	376.8
Two to five years	430.2	455.4
Over five years	829.9	930.5
Total	1,755.3	2,116.9

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

Financial Risk Management

Foreign Currency Risk

(A) Company Risk

As the Head Office debts are 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 NAV relate to investments denominated in the peso and rupiah. Accordingly, any change in these currencies, against their respective 31 December 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	23.1	5.62
Indofood	6.6	1.61
MPIC	1.2	0.29
Total	30.9	7.52

(i) Based on quoted share prices as at 31 December 2006 applied to the Group's economic interest.

(B) *Group Risk*

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

Net Debt by Currency

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

Consolidated

US\$ millions	US\$	Peso	Rupiah	Others	Total
Total borrowings	459.1	50.6	642.3	3.9	1,155.9
Cash and cash equivalents ⁽ⁱ⁾	(265.4)	(6.0)	(84.4)	(3.2)	(359.0)
Net debt	193.7	44.6	557.9	0.7	796.9
Representing:					
Head Office	239.6	(1.1)	–	(0.6)	237.9
Indofood	45.5	–	557.9	1.3	604.7
MPIC	(91.4)	45.7	–	–	(45.7)
Net debt	193.7	44.6	557.9	0.7	796.9

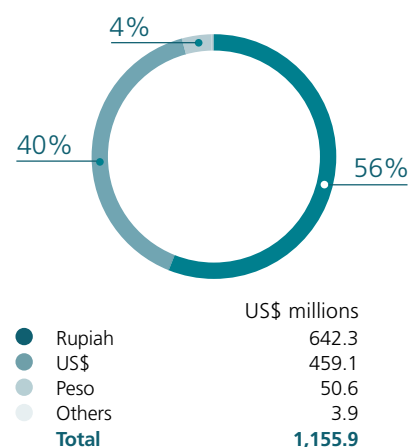
Associated

US\$ millions	US\$	Peso	Others	Total
PLDT	1,414.0	(139.1)	(2.8)	1,272.1

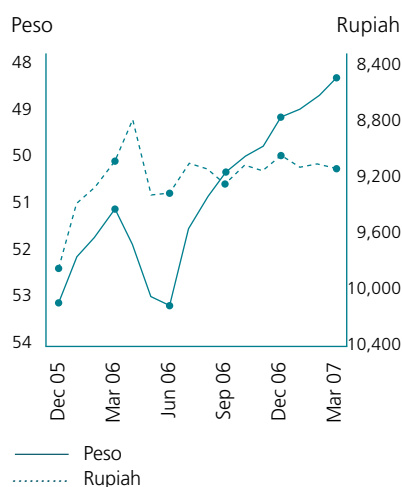
(i) Includes pledged deposits and restricted cash.

Details of changes in Head Office net debt are set out on page 34.

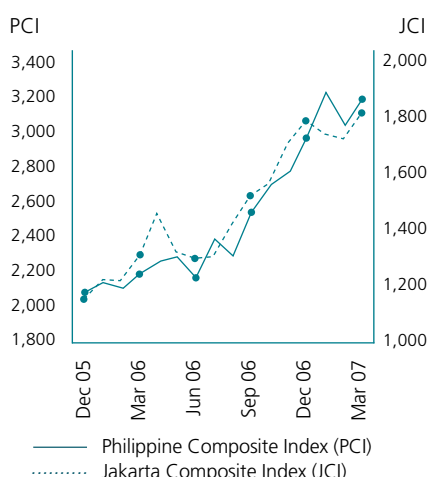
Analysis of Total Borrowings by Currency



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



Stock Market Indices



PLDT carries U.S. dollar debt primarily because international vendors of telecommunication equipment quote prices and require payment in U.S. dollars. In addition, large funding requirements often cannot be satisfied in local currency due to inherent constraints within the financial markets in the Philippines. As a result, financing frequently needs to be sourced from the international capital market, principally in U.S. dollars. PLDT has actively hedged approximately 64.7 per cent of its U.S. dollar net borrowings. In addition, substantial revenues of PLDT are either denominated in, or linked to, the U.S. dollar. For example, PLDT's U.S. dollar denominated international inbound revenue accounted for approximately US\$163.8 million or 6.7 per cent of PLDT's total revenues in 2006. In addition, under certain circumstances, PLDT is able to adjust the monthly recurring rates for its fixed line service by one per cent for every Peso 0.1 change in the U.S. dollar exchange rate.

As a result of unhedged U.S. dollar net debt, the Group's results are sensitive to fluctuations in U.S. dollar exchange rates. The following table illustrates the estimated effect on the Group's reported profitability for a one per cent change in the principal operating currencies of subsidiary and associated companies. This does not reflect the indirect effect of fluctuating exchange rates on 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	1,414.0	915.4	498.6	5.0	0.7
Indofood	45.5	–	45.5	0.5	0.2
MPIC	(91.4)	–	(91.4)	(0.9)	(0.6)
Head Office ⁽ⁱ⁾	239.6	–	239.6	–	–
Total	1,607.7	915.4	692.3	4.6	0.3

(i) As the Group reports its results in U.S. dollars, unhedged U.S. dollar debt at the Head Office does not give rise to any significant exchange exposure.

Equity Market Risk

As the majority of the Company's investments are listed, the Company is exposed to fluctuations in the equity market value of such investments. In addition, the value of the Company's investments may be impacted by sentiment towards specific countries.

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

	Philippine Composite Index	Jakarta Composite Index
At 31 December 2005	2,096.0	1,162.6
At 31 December 2006	2,982.5	1,805.5
Increase during 2006	42.3%	55.3%
At 11 April 2007	3,294.2	1,931.0
Increase over 2007 to 11 April 2007	10.5%	7.0%

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\$52.7 million were converted during 2006, leaving an outstanding principal amount of US\$146.3 million as at 31 December 2006. The holders of the Exchangeable Notes have the right to exchange the Exchangeable Notes to the underlying approximately 2.7 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 exchangeable 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\$89.7 million in 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 2.7 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 2006, the Group purchased approximately 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 gain of US\$31.2 million during the year.

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

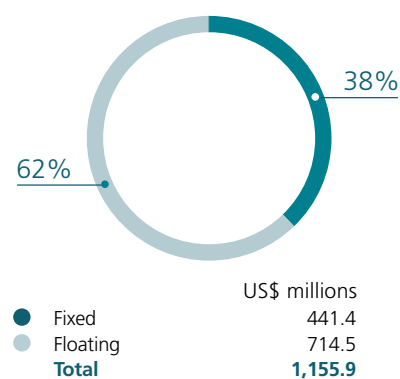
US\$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents ⁽ⁱ⁾	Net debt/(cash)
Head Office	153.1	148.3	(63.5)	237.9
Indofood	242.7	560.9	(198.9)	604.7
MPIC	45.6	5.3	(96.6)	(45.7)
Total	441.4	714.5	(359.0)	796.9

Associated

US\$ millions	Fixed interest rate borrowings	Variable interest rate borrowings	Cash and cash equivalents	Net debt
PLDT	1,225.8	408.2	(361.9)	1,272.1

(i) Includes pledged deposits and restricted cash.

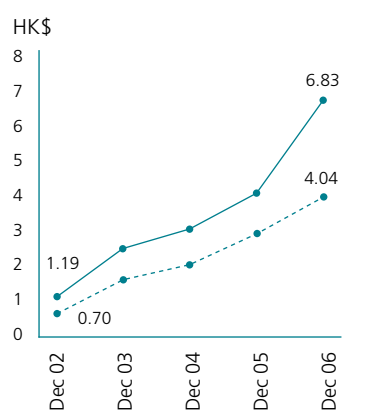
Interest Rate Profile



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	148.3	1.5	1.5
Indofood	560.9	5.6	2.0
MPIC	5.3	0.1	–
PLDT	408.2	4.1	0.6
Total	1,122.7	11.3	4.1

Share Price vs Adjusted NAV Per Share



— Adjusted net asset value per share
 Share price

Adjusted NAV Per Share

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

At 31 December		2006	2005
US\$ millions	Basis		
PLDT	(i)	2,307.3	1,491.5
Indofood	(i)	658.0	407.0
MPIC	(i)	117.2	–
Head Office			
– Receivable	(ii)	60.3	–
– Net debt		(237.9)	(152.6)
– Derivative liability	(iii)	(99.6)	(39.3)
Total valuation		2,805.3	1,706.6
Number of ordinary shares in issue (millions)		3,204.8	3,188.8
Value per share			
– U.S. dollar		0.88	0.54
– HK dollars		6.83	4.17
Company's closing share price (HK\$)		4.04	3.00
Share price discount to HK\$ value per share (%)		40.8	28.1

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

(ii) Represents a receivable from MPIC.

(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 Level Up.