FIRST PACIFIC

# FIRST PACIFIC COMPANY LIMITED

*(Incorporated with limited liability under the laws of Bermuda)*

Website: http://www.firstpacific.com

**(Stock code: 00142)**

# 2009 Annual Results - Audited

## FINANCIAL HIGHLIGHTS

- Recurring profit improved by 19.8% to US$286.6 million (HK$2,235.5 million) from US$239.2 million (HK$1,865.8 million).
- Profit attributable to owners of the parent increased by 100.0% to US$401.6 million (HK$3,132.5 million) from US$200.8 million (HK$1,566.2 million).
- Profit contribution from operations increased by 10.1% to US$335.2 million (HK$2,614.6 million) from US$304.4 million (HK$2,374.3 million).
- Non-recurring gains increased to US$81.3 million (HK$634.1 million) from US$24.5 million (HK$191.1 million), which mainly reflect gains on dilution of the Group's interest in MPIC.
- Basic earnings per share increased by 98.1% to U.S. 11.71 cents (HK91.3 cents) from U.S. 5.91 cents (HK46.1 cents).
- A final dividend of HK8.00 cents (U.S. 1.03 cent) (2008: HK6.00 cents or U.S. 0.77 cent) per ordinary share has been recommended, making a total regular dividend per ordinary share equivalent to HK12.00 cents (U.S. 1.54 cent) (2008: HK9.00 cents or U.S. 1.15 cent) for the full year or a dividend payout ratio of approximately 20% (2008: 15%) of recurring profit.
- Equity attributable to owners of the parent increased by 69.6% to US$1,916.2 million (HK$14,946.4 million) at 31 December 2009 from US$1,130.1 million (HK$8,814.8 million) at 31 December 2008.
- Consolidated gearing ratio improved to 0.67 times at 31 December 2009 from 1.06 times at 31 December 2008.

## CONSOLIDATED INCOME STATEMENT

| For the year ended 31 December | Notes | 2009 US$m | 2008 US$m | 2009* HK$m | 2008* HK$m |
|---|---|---|---|---|---|
| **Turnover** | 2 | **3,925.6** | 4,105.3 | **30,619.7** | 32,021.3 |
| Cost of sales | | **(2,739.9)** | (3,103.4) | **(21,371.2)** | (24,206.5) |
| **Gross profit** | | **1,185.7** | 1,001.9 | **9,248.5** | 7,814.8 |
| Gain on dilutions and divestments | | **85.9** | 28.7 | **670.0** | 223.8 |
| Distribution costs | | **(289.0)** | (273.9) | **(2,254.2)** | (2,136.4) |
| Administrative expenses | | **(286.8)** | (256.8) | **(2,237.1)** | (2,003.0) |
| Other operating income/(expenses), net | | **105.1** | (144.9) | **819.8** | (1,130.2) |
| Net borrowing costs | 3 | **(230.3)** | (150.5) | **(1,796.3)** | (1,173.9) |
| Share of profits less losses of associated companies and joint ventures | | **233.4** | 192.9 | **1,820.5** | 1,504.6 |
| **Profit before taxation** | 4 | **804.0** | 397.4 | **6,271.2** | 3,099.7 |
| Taxation | 5 | **(143.7)** | (61.4) | **(1,120.9)** | (478.9) |
| **Profit for the year from continuing operations** | | **660.3** | 336.0 | **5,150.3** | 2,620.8 |
| Profit for the year from a discontinued operation | 6 | **1.1** | 0.6 | **8.6** | 4.7 |
| **Profit for the year** | | **661.4** | 336.6 | **5,158.9** | 2,625.5 |
| **Attributable to:** | | | | | |
| Owners of the parent | 7 | **401.6** | 200.8 | **3,132.5** | 1,566.2 |
| Minority interest | | **259.8** | 135.8 | **2,026.4** | 1,059.3 |
| | | **661.4** | 336.6 | **5,158.9** | 2,625.5 |
| **Ordinary share dividends** | 8 | | | | |
| Interim - HK4.00 cents (U.S. 0.51 cent) (2008: HK3.00 cents or U.S. 0.38 cent) per share | | **16.5** | 12.3 | **128.7** | 95.9 |
| Proposed final - HK8.00 cents (U.S. 1.03 cents) (2008: HK6.00 cents or U.S. 0.77 cent) per share | | **39.6** | 24.7 | **308.9** | 192.7 |
| **Total** | | **56.1** | 37.0 | **437.6** | 288.6 |

| For the year ended 31 December | Notes | 2009 US¢ | 2008 (Restated)(i) US¢ | 2009* HK¢ | 2008* (Restated)(i) HK¢ |
|---|---|---|---|---|---|
| **Earnings per share attributable to owners of the parent** | 9 | | | | |
| Basic | | | | | |
| - For profit from continuing operations | | **11.64** | 5.91 | **90.8** | 46.1 |
| - For profit from a discontinued operation | | **0.07** | - | **0.5** | - |
| - For profit for the year | | **11.71** | 5.91 | **91.3** | 46.1 |
| Diluted | | | | | |
| - For profit from continuing operations | | **11.28** | 5.63 | **88.0** | 43.9 |
| - For profit from a discontinued operation | | **0.07** | - | **0.5** | - |
| - For profit for the year | | **11.35** | 5.63 | **88.5** | 43.9 |

*(i) Refer to Note 1*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the year ended 31 December | 2009 US$m | 2008 US$m | 2009* HK$m | 2008* HK$m |
|---|---|---|---|---|
| **Profit for the year** | **661.4** | 336.6 | **5,158.9** | 2,625.5 |
| **Other comprehensive income/(loss)** | | | | |
| Exchange differences on translating foreign operations | **298.6** | (337.1) | **2,329.1** | (2,629.4) |
| Realized exchange and capital reserve upon dilution of interest in subsidiary companies | **9.0** | 0.2 | **70.2** | 1.6 |
| Realized exchange reserve upon divestment and dilution of interest in associated companies | **-** | (0.3) | **-** | (2.4) |
| Unrealized gains on available-for-sale assets | **16.9** | 2.9 | **131.8** | 22.6 |
| Realized gains on available-for-sale assets | **(3.6)** | (0.1) | **(28.1)** | (0.8) |
| Unrealized losses on cash flow hedges | **(5.8)** | (8.8) | **(45.2)** | (68.6) |
| Realized losses on cash flow hedges | **1.5** | - | **11.7** | - |
| Income tax related to cash flow hedges | **1.1** | 2.9 | **8.6** | 22.6 |
| Share of revaluation increment of an associated company's assets | **12.7** | - | **99.0** | - |
| Other comprehensive income/ (loss) for the year, net of tax | **330.4** | (340.3) | **2,577.1** | (2,654.4) |
| **Total comprehensive income/(loss) for the year** | **991.8** | (3.7) | **7,736.0** | (28.9) |
| **Attributable to**: | | | | |
| Owners of the parent | **540.7** | 36.4 | **4,217.5** | 283.9 |
| Minority interest | **451.1** | (40.1) | **3,518.5** | (312.8) |
| | **991.8** | (3.7) | **7,736.0** | (28.9) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| At 31 December | Notes | 2009 US$m | 2008 US$m | 2009* HK$m | 2008* HK$m |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | | **1,059.0** | 808.4 | **8,260.2** | 6,305.5 |
| Plantations | | **1,009.2** | 744.5 | **7,871.8** | 5,807.1 |
| Associated companies and joint ventures | | **2,068.0** | 1,202.3 | **16,130.4** | 9,377.9 |
| Goodwill | | **775.2** | 675.6 | **6,046.5** | 5,269.7 |
| Other intangible assets | 10 | **1,728.4** | 1,538.5 | **13,481.5** | 12,000.3 |
| Accounts receivable, other receivables and prepayments | 11 | **6.6** | 3.0 | **51.5** | 23.4 |
| Prepaid land premiums | | **183.0** | 153.2 | **1,427.4** | 1,195.0 |
| Available-for-sale assets | | **2.1** | 1.7 | **16.4** | 13.2 |
| Deferred tax assets | | **58.3** | 38.7 | **454.7** | 301.9 |
| Other non-current assets | | **305.9** | 217.1 | **2,386.1** | 1,693.4 |
| | | **7,195.7** | 5,383.0 | **56,126.5** | 41,987.4 |
| **Current assets** | | | | | |
| Cash and cash equivalents | | **936.6** | 625.9 | **7,305.5** | 4,882.0 |
| Pledged deposits and restricted cash | | **29.2** | 12.0 | **227.8** | 93.6 |
| Available-for-sale assets | | **40.4** | 56.9 | **315.1** | 443.8 |
| Accounts receivable, other receivables and prepayments | 11 | **639.1** | 435.5 | **4,985.0** | 3,396.9 |
| Inventories | | **549.2** | 557.4 | **4,283.8** | 4,347.8 |
| Assets held for sale | | **7.1** | - | **55.3** | - |
| | | **2,201.6** | 1,687.7 | **17,172.5** | 13,164.1 |
| Assets of a disposal group classified as held for sale | 6 | **-** | 128.3 | **-** | 1,000.7 |
| | | **2,201.6** | 1,816.0 | **17,172.5** | 14,164.8 |
| **Current liabilities** | | | | | |
| Accounts payable, other payables and accruals | 12 | **628.2** | 667.4 | **4,900.0** | 5,205.7 |
| Short-term borrowings | | **829.7** | 1,207.0 | **6,471.7** | 9,414.6 |
| Provision for taxation | | **68.9** | 55.8 | **537.4** | 435.3 |
| Current portion of deferred liabilities and provisions | | **73.5** | 39.4 | **573.3** | 307.3 |
| | | **1,600.3** | 1,969.6 | **12,482.4** | 15,362.9 |
| Liabilities directly associated with the assets classified as held for sale | 6 | **-** | 106.1 | **-** | 827.6 |
| | | **1,600.3** | 2,075.7 | **12,482.4** | 16,190.5 |
| **Net current assets/(liabilities)** | | **601.3** | (259.7) | **4,690.1** | (2,025.7) |
| **Total assets less current liabilities** | | **7,797.0** | 5,123.3 | **60,816.6** | 39,961.7 |
| **Equity** | | | | | |
| Issued share capital | | **38.6** | 32.1 | **301.1** | 250.4 |
| Retained earnings | | **556.4** | 196.0 | **4,339.9** | 1,528.8 |
| Other components of equity | | **1,321.2** | 902.0 | **10,305.4** | 7,035.6 |
| Equity attributable to owners of the parent | | **1,916.2** | 1,130.1 | **14,946.4** | 8,814.8 |
| Minority interest | | **2,122.9** | 1,245.1 | **16,558.6** | 9,711.8 |
| **Total equity** | | **4,039.1** | 2,375.2 | **31,505.0** | 18,526.6 |
| **Non-current liabilities** | | | | | |
| Long-term borrowings | | **2,855.6** | 1,951.7 | **22,273.7** | 15,223.2 |
| Deferred liabilities and provisions | | **507.0** | 432.4 | **3,954.6** | 3,372.7 |
| Deferred tax liabilities | | **395.3** | 364.0 | **3,083.3** | 2,839.2 |
| | | **3,757.9** | 2,748.1 | **29,311.6** | 21,435.1 |
| | | **7,797.0** | 5,123.3 | **60,816.6** | 39,961.7 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Equity attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital US$m | Share premium US$m | Share options issued US$m | Exchange reserve US$m | Unrealized gains/ (losses) on available-for-sale assets US$m | Unrealized gains/ (losses) on cash flow hedges US$m | Income tax related to cash flow hedges US$m | Capital and other reserves US$m | Retained earnings US$m | Total US$m | Minority interest US$m | Total equity US$m |
| Balance at 1 January 2008 | 32.2 | 971.7 | 17.6 | 44.0 | 10.3 | 11.0 | (3.7) | (2.3) | 50.5 | 1,131.3 | 991.7 | 2,123.0 |
| Total comprehensive income for the year | - | - | - | (160.0) | 1.5 | (8.8) | 2.9 | - | 200.8 | 36.4 | (40.1) | (3.7) |
| Issue of shares upon the exercise of share options | 0.1 | 2.4 | (0.9) | - | - | - | - | - | - | 1.6 | - | 1.6 |
| Repurchase and cancellation of shares | (0.2) | - | - | - | - | - | - | 0.2 | (10.1) | (10.1) | - | (10.1) |
| Equity-settled share option arrangements | - | - | 18.0 | - | - | - | - | - | - | 18.0 | - | 18.0 |
| 2007 special dividend | - | - | - | - | - | - | - | - | (12.3) | (12.3) | - | (12.3) |
| 2007 final dividend | - | - | - | - | - | - | - | - | (20.6) | (20.6) | - | (20.6) |
| 2008 interim dividend | - | - | - | - | - | - | - | - | (12.3) | (12.3) | - | (12.3) |
| Reserve of a disposal group classified as assets held for sale | - | - | - | - | (0.1) | - | - | 0.1 | - | - | - | - |
| Acquisition of subsidiary companies | - | - | - | - | - | 0.5 | - | (2.4) | - | (1.9) | 295.1 | 293.2 |
| Change in attributable interests | - | - | - | - | - | - | - | - | - | - | 25.7 | 25.7 |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - | - | - | - | (27.3) | (27.3) |
| Balance at 31 December 2008 | 32.1 | 974.1 | 34.7 | (116.0) | 11.7 | 2.7 | (0.8) | (4.4) | 196.0 | 1,130.1 | 1,245.1 | 2,375.2 |
| Balance at 1 January 2009 | 32.1 | 974.1 | 34.7 | (116.0) | 11.7 | 2.7 | (0.8) | (4.4) | 196.0 | 1,130.1 | 1,245.1 | **2,375.2** |
| Total comprehensive income for the year | - | - | - | 117.2 | 10.7 | (3.9) | 1.1 | 14.0 | 401.6 | 540.7 | 451.1 | **991.8** |
| Issue of shares upon the exercise of share options | - | 1.2 | (0.4) | - | - | - | - | - | - | 0.8 | - | **0.8** |
| Issue of shares in respect of rights issue | 6.5 | 270.6 | - | - | - | - | - | - | - | 277.1 | - | **277.1** |
| Equity-settled share option arrangements | - | - | 8.8 | - | - | - | - | - | - | 8.8 | 0.5 | **9.3** |
| 2008 final dividend | - | - | - | - | - | - | - | - | (24.7) | (24.7) | - | **(24.7)** |
| 2009 interim dividend | - | - | - | - | - | - | - | - | (16.5) | (16.5) | - | **(16.5)** |
| Disposal of a disposal group classified as held for sale | - | - | - | - | - | - | - | (0.1) | - | (0.1) | (6.4) | **(6.5)** |
| Acquisition of minority interest | - | - | - | - | - | - | - | - | - | - | (8.4) | **(8.4)** |
| Change in attributable interests | - | - | - | - | - | - | - | - | - | - | 481.9 | **481.9** |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - | - | - | - | (40.9) | **(40.9)** |
| **Balance at 31 December 2009** | **38.6** | **1,245.9** | **43.1** | **1.2** | **22.4** | **(1.2)** | **0.3** | **9.5** | **556.4** | **1,916.2** | **2,122.9** | **4,039.1** |

| | Equity attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital HK$m* | Share premium HK$m* | Share options issued HK$m* | Exchange reserve HK$m* | Unrealized gains/ (losses) on available-for-sale assets HK$m* | Unrealized gains/ (losses) on cash flow hedges HK$m* | Income tax related to cash flow hedge HK$m* | Capital and other reserves HK$m* | Retained earnings HK$m* | Total HK$m* | Minority interest HK$m* | Total equity HK$m* |
| Balance at 1 January 2008 | 251.2 | 7,579.3 | 137.3 | 343.2 | 80.3 | 85.8 | (28.9) | (18.0) | 393.9 | 8,824.1 | 7,735.3 | 16,559.4 |
| Total comprehensive income for the year | - | - | - | (1,248.0) | 11.7 | (68.6) | 22.6 | - | 1,566.2 | 283.9 | (312.8) | (28.9) |
| Issue of shares upon the exercise of share options | 0.8 | 18.7 | (7.0) | - | - | - | - | - | - | 12.5 | - | 12.5 |
| Repurchase and cancellation of shares | (1.6) | - | - | - | - | - | - | 1.6 | (78.8) | (78.8) | - | (78.8) |
| Equity-settled share option arrangements | - | - | 140.4 | - | - | - | - | - | - | 140.4 | - | 140.4 |
| 2007 special dividend | - | - | - | - | - | - | - | - | (95.9) | (95.9) | - | (95.9) |
| 2007 final dividend | - | - | - | - | - | - | - | - | (160.7) | (160.7) | - | (160.7) |
| 2008 interim dividend | - | - | - | - | - | - | - | - | (95.9) | (95.9) | - | (95.9) |
| Reserve of a disposal group classified as assets held for sale | - | - | - | - | (0.8) | - | - | 0.8 | - | - | - | - |
| Acquisition of subsidiary companies | - | - | - | - | - | 3.9 | - | (18.7) | - | (14.8) | 2,301.8 | 2,287.0 |
| Change in attributable interests | - | - | - | - | - | - | - | - | - | - | 200.4 | 200.4 |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - | - | - | - | (212.9) | (212.9) |
| Balance at 31 December 2008 | 250.4 | 7,598.0 | 270.7 | (904.8) | 91.2 | 21.1 | (6.3) | (34.3) | 1,528.8 | 8,814.8 | 9,711.8 | 18,526.6 |
| Balance at 1 January 2009 | 250.4 | 7,598.0 | 270.7 | (904.8) | 91.2 | 21.1 | (6.3) | (34.3) | 1,528.8 | 8,814.8 | 9,711.8 | **18,526.6** |
| Total comprehensive income for the year | - | - | - | 914.2 | 83.5 | (30.4) | 8.6 | 109.2 | 3,132.4 | 4,217.5 | 3,518.5 | **7,736.0** |
| Issue of shares upon the exercise of share options | - | 9.3 | (3.1) | - | - | - | - | - | - | 6.2 | - | **6.2** |
| Issue of shares in respect of rights issue | 50.7 | 2,110.7 | - | - | - | - | - | - | - | 2,161.4 | - | **2,161.4** |
| Equity-settled share option arrangements | - | - | 68.6 | - | - | - | - | - | - | 68.6 | 3.9 | **72.5** |
| 2008 final dividend | - | - | - | - | - | - | - | - | (192.6) | (192.6) | - | **(192.6)** |
| 2009 interim dividend | - | - | - | - | - | - | - | - | (128.7) | (128.7) | - | **(128.7)** |
| Disposal of a disposal group classified as held for sale | - | - | - | - | - | - | - | (0.8) | - | (0.8) | (49.9) | **(50.7)** |
| Acquisition of minority interest | - | - | - | - | - | - | - | - | - | - | (65.5) | **(65.5)** |
| Change in attributable interests | - | - | - | - | - | - | - | - | - | - | 3,758.8 | **3,758.8** |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - | - | - | - | (319.0) | **(319.0)** |
| **Balance at 31 December 2009** | **301.1** | **9,718.0** | **336.2** | **9.4** | **174.7** | **(9.3)** | **2.3** | **74.1** | **4,339.9** | **14,946.4** | **16,558.6** | **31,505.0** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| For the year ended 31 December | 2009 US$m | 2008 US$m | 2009 HK$m* | 2008 HK$m* |
|---|---|---|---|---|
| **Profit before taxation** | | | | |
| From continuing operations | **804.0** | 397.4 | **6,271.2** | 3,099.7 |
| From a discontinued operation | **0.1** | 1.3 | **0.8** | 10.1 |
| Adjustments for: | | | | |
| Interest expenses | **257.8** | 185.3 | **2,010.8** | 1,445.3 |
| Depreciation | **94.2** | 79.2 | **734.8** | 617.8 |
| Amortization of other intangible assets | **83.7** | 27.3 | **652.8** | 212.9 |
| Loss/(gain) on sale of property, plant and equipment | **9.6** | (0.6) | **74.9** | (4.7) |
| Equity-settled share option expense | **9.3** | 18.0 | **72.6** | 140.4 |
| Recognition of prepaid land premiums | **8.1** | 7.1 | **63.2** | 55.4 |
| Impairment losses recognized | **12.4** | 43.9 | **96.7** | 342.4 |
| Share of profits less losses of associated companies and joint ventures | **(233.4)** | (192.9) | **(1,820.5)** | (1,504.6) |
| Gain on dilution of interest in subsidiary companies | **(84.7)** | (18.9) | **(660.6)** | (147.4) |
| Foreign exchange and derivative (gains)/losses, net | **(72.6)** | 83.2 | **(566.3)** | 649.0 |
| Increase in other non-current assets | **(71.0)** | (35.7) | **(553.8)** | (278.5) |
| (Gain)/loss on changes in fair value of plantations | **(60.2)** | 97.7 | **(469.6)** | 762.1 |
| Interest income | **(27.5)** | (34.8) | **(214.5)** | (271.4) |
| Realized gain on sale of available-for-sale assets | **(3.6)** | (0.1) | **(28.1)** | (0.8) |
| (Increase)/decrease in accounts receivable, other receivables and prepayments (Non-current) | **(1.5)** | 37.5 | **(11.7)** | 292.5 |
| Gain on divestment and dilution of interest in an associated company | **(1.2)** | (9.8) | **(9.4)** | (76.4) |
| Dividend income from available-for-sale assets | **(0.1)** | (0.5) | **(0.8)** | (3.9) |
| Others | **3.3** | (8.0) | **25.8** | (62.4) |
| | **726.7** | 676.6 | **5,668.3** | 5,277.5 |
| (Decrease)/increase in accounts payable, other payables and accruals | **(229.4)** | 69.1 | **(1,789.4)** | 538.9 |
| Decrease/(increase) in inventories | **91.2** | (160.3) | **711.4** | (1,250.3) |
| Increase in accounts receivable, other receivables and prepayments (Current) | **(155.5)** | (151.6) | **(1,212.9)** | (1,182.5) |
| Net cash generated from operations(i) | **433.0** | 433.8 | **3,377.4** | 3,383.6 |
| Interest received | **21.3** | 40.7 | **166.1** | 317.5 |
| Interest paid | **(244.3)** | (196.9) | **(1,905.6)** | (1,535.8) |
| Tax paid | **(150.9)** | (112.4) | **(1,177.0)** | (876.7) |
| **Net cash flows from operating activities** | **59.1** | 165.2 | **460.9** | 1,288.6 |
| Dividends received from associated companies | **210.6** | 211.9 | **1,642.7** | 1,652.8 |
| Proceeds from disposal of available-for-sale assets | **43.3** | - | **337.7** | - |
| Proceeds from sale of property, plant and equipment | **5.6** | 20.8 | **43.7** | 162.2 |
| Proceeds from divestment of interest in an associated company | **2.5** | - | **19.5** | - |
| Investments in associated companies | **(274.5)** | (140.5) | **(2,141.1)** | (1,095.9) |
| Increased investments in associated companies | **(271.2)** | - | **(2,115.4)** | - |
| Purchase of property, plant and equipment | **(221.8)** | (163.4) | **(1,730.0)** | (1,274.5) |
| Investments in other intangible assets | **(99.3)** | (67.8) | **(774.5)** | (528.8) |
| Investments in plantations | **(68.7)** | (76.7) | **(535.9)** | (598.3) |
| Increased investments in subsidiary companies | **(10.4)** | - | **(81.1)** | - |
| Investments in a joint venture | **(5.3)** | - | **(41.3)** | - |
| Acquisition of available-for-sale assets | **(0.9)** | (38.9) | **(7.1)** | (303.4) |
| Acquisition of subsidiary companies | **(0.8)** | (611.8) | **(6.2)** | (4,772.0) |
| Loans and advances to a joint venture, net | **-** | (19.0) | **-** | (148.2) |
| Deposits for increased investments in subsidiary companies | **-** | (12.9) | **-** | (100.6) |
| **Net cash flows used in investing activities** | **(690.9)** | (898.3) | **(5,389.0)** | (7,006.7) |

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

| For the year ended 31 December | 2009 US$m | 2008 US$m | 2009 HK$m* | 2008 HK$m* |
|---|---|---|---|---|
| Proceeds from new borrowings | **1,805.4** | 1,871.1 | **14,082.1** | 14,594.5 |
| Shares issued to minority interest by a subsidiary company | **286.9** | - | **2,237.8** | - |
| Proceeds from rights issue of the Company | **277.1** | - | **2,161.4** | - |
| Proceeds from sale of treasury shares by a subsidiary company | **18.2** | 62.1 | **141.9** | 484.4 |
| Proceeds from the issue of shares upon the exercise of share options | **1.5** | 1.6 | **11.7** | 12.5 |
| Borrowings repaid | **(1,384.8)** | (1,050.9) | **(10,801.4)** | (8,197.0) |
| Increase in time deposits with original maturity of more than three months | **(50.9)** | - | **(397.0)** | - |
| Dividends paid to shareholders | **(41.2)** | (45.2) | **(321.4)** | (352.6) |
| Dividends paid to minority shareholders by subsidiary companies | **(40.9)** | (27.3) | **(319.0)** | (212.9) |
| Increase in restricted cash | **(16.7)** | - | **(130.2)** | - |
| Repurchase of shares | **-** | (10.1) | **-** | (78.8) |
| Repurchase of subsidiary companies' shares | **-** | (7.7) | **-** | (60.1) |
| **Net cash flows from financing activities** | **854.6** | 793.6 | **6,665.9** | 6,190.0 |
| **Net increase in cash and cash equivalents** | **222.8** | 60.5 | **1,737.8** | 471.9 |
| Cash and cash equivalents at 1 January | **625.9** | 600.8 | **4,882.0** | 4,686.2 |
| Exchange translation | **35.2** | (35.4) | **274.6** | (276.1) |
| **Cash and cash equivalents at 31 December** | **883.9** | 625.9 | **6,894.4** | 4,882.0 |
| **Representing** | | | | |
| Cash and cash equivalents | **936.6** | 625.9 | **7,305.5** | 4,882.0 |
| Less time deposits with original maturity of more than three months | **(52.7)** | - | **(411.1)** | - |
| **Cash and cash equivalents at 31 December** | **883.9** | 625.9 | **6,894.4** | 4,882.0 |

*(i) Changes in working capital are stated excluding movements due to acquisition and disposal of subsidiary companies*

** The Company maintains its accounts and reports to its shareholders in United States dollars. The figures shown in Hong Kong dollars are for illustration only and are based on a fixed exchange rate of 7.8 Hong Kong dollars to one United States dollar.*

Notes:-

1. **Impact of new and revised Hong Kong Financial Reporting Standards (HKFRSs)**
During 2009, the Group adopted the following new and revised Hong Kong Financial Reporting Standards (HKFRSs) (which include all HKFRSs, Hong Kong Accounting Standards (HKASs) and Hong Kong International Financial Reporting Interpretation Committee-Interpretations (HK(IFRIC)-Ints) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) for the first time for the current year's financial statements:

| | |
|---|---|
| HKAS 1 (Revised) | "Presentation of Financial Statements"(i) |
| HKAS 18 Amendment | "Determining whether an Entity is Acting as a Principal or as an Agent"(i) |
| HKAS 23 (Revised) | "Borrowing Costs"(i) |
| HKAS 32 and HKAS 1 Amendments | "Puttable Financial Instruments and Obligations Arising on Liquidation"(i) |
| HKFRS 1 and HKAS 27 Amendments | "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"(i) |
| HKFRS 2 Amendments | "Vesting Conditions and Cancellations"(i) |
| HKFRS 7 Amendments | "Improving Disclosures about Financial Instruments"(i) |
| HKFRS 8 | "Operating Segments"(i) |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | "Reassessment of Embedded Derivatives" and "Embedded Derivatives"(ii) |
| HK(IFRIC)-Int 13 | "Customer Loyalty Programmes"(iii) |
| HK(IFRIC)-Int 15 | "Agreements for the Construction of Real Estate"(i) |
| HK(IFRIC)-Int 16 | "Hedges of a Net Investment in a Foreign Operation"(iv) |
| HK(IFRIC)-Int 18 | "Transfers of Assets from Customers"(v) |
| Improvements to HKFRSs | "Improvements to HKFRSs"(vi) |

(i) Effective for annual periods commencing on or after 1 January 2009
(ii) Effective for annual periods ending on or after 30 June 2009
(iii) Effective for annual periods commencing on or after 1 July 2008
(iv) Effective for annual periods commencing on or after 1 October 2008
(v) Effective for the transfer of assets from customers received on or after 1 July 2009
(vi) Generally effective for annual periods commencing on or after 1 January 2009, unless otherwise stated in specific HKFRSs

The adoption of the above new and revised HKFRSs has had no effect on both the profit attributable to owners of the parent for the years ended 31 December 2009 and 31 December 2008 and equity attributable to owners of the parent at 31 December 2009 and 31 December 2008, but has only resulted in certain changes to the presentation of financial statements and disclosures.

During 2009, the Group has also early adopted HKAS 32 Amendment "Classification of Rights Issues", which is effective for annual periods beginning on or after 1 February 2010, with early adoption permitted, and has applied it retrospectively. The amendment revises the definition of financial liabilities such that rights issues, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights issues, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The offer of rights shares by the Company to its shareholders in November 2009, on the basis of one rights share for every five existing shares held at a subscription price of HK$3.40 per one rights share, was accounted for as an equity instrument of the Group in its consolidated financial statements.

In December 2009, the Company completed the rights issue. The effect of the bonus element included within the rights issue has been included within the calculations of basic and diluted earnings per share for the year, through an adjustment to the weighted average number of ordinary and dilutive potential ordinary shares outstanding. Comparative amounts have been restated on this basis.

2. **Turnover and segmental information**

| **For the year ended 31 December** | **2009**<br>**US$m** | 2008<br>US$m | **2009***<br>**HK$m** | 2008*<br>HK$m |
|---|---|---|---|---|
| **Turnover** | | | | |
| Sale of goods | **3,511.8** | 3,896.9 | **27,392.0** | 30,395.8 |
| Rendering of services | **413.8** | 208.4 | **3,227.7** | 1,625.5 |
| **Total** | **3,925.6** | 4,105.3 | **30,619.7** | 32,021.3 |

**Segmental information**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group), whose operating results are regularly reviewed by the Group's chief operating decision maker who makes decisions about how resources are to be allocated to the segment and assesses its performance, and for which discrete financial information is available to him.

The Board of Directors considers the business from both product or service and geographical perspectives. From the product or service perspective, the Group business interests are divided into four main segments, which are telecommunications, infrastructure, consumer food products and natural resources. Geographically, the Board of Directors considers the businesses of the Group are operating in the Philippines and Indonesia.

The Board of Directors assesses the performance of the operating segments based on a measure of recurring profit. This measurement basis measures the profit attributable to owners of the parent excluding the effects of foreign exchange and derivative gains/losses, gain/loss on changes in fair value of plantations and non-recurring items. Non-recurring items represent certain items, through occurrence or size, which are not considered as usual operating items.

The revenue, results and other information for the years ended 31 December 2009 and 2008, and total assets and total liabilities at 31 December 2009 and 2008 regarding the Group's reportable businesses are as follows.

**By principal business activity - 2009**

| For the year ended/at 31 December | The Philippines | | | Indonesia | | | |
|---|---|---|---|---|---|---|---|
| | Telecom-munications US$m | Infrastructure US$m | Natural Resources US$m | Consumer Food Products US$m | Head Office US$m | **2009 Total US$m** | **2009* Total HK$m** |
| **Revenue** | | | | | | | |
| Turnover | - | 336.9 | - | 3,588.7 | - | **3,925.6** | **30,619.7** |
| **Results** | | | | | | | |
| Recurring profit | 205.3 | 33.0 | 7.7 | 89.2 | (48.6) | **286.6** | **2,235.5** |
| **Assets and liabilities** | | | | | | | |
| Associated companies and joint ventures | 1,050.8 | 568.8 | 441.2 | 3.7 | 3.5 | **2,068.0** | **16,130.4** |
| Other assets | - | 2,214.1 | - | 4,882.1 | 233.1 | **7,329.3** | **57,168.6** |
| Total assets | 1,050.8 | 2,782.9 | 441.2 | 4,885.8 | 236.6 | **9,397.3** | **73,299.0** |
| Borrowings | - | 926.1 | - | 1,837.7 | 921.5 | **3,685.3** | **28,745.3** |
| Other liabilities | - | 571.4 | - | 1,008.7 | 92.8 | **1,672.9** | **13,048.7** |
| Total liabilities | - | 1,497.5 | - | 2,846.4 | 1,014.3 | **5,358.2** | **41,794.0** |
| **Other information** | | | | | | | |
| Depreciation and amortization | - | 68.8 | - | 108.7 | 0.4 | **177.9** | **1,387.6** |
| Interest income | - | 10.5 | - | 15.6 | 1.4 | **27.5** | **214.5** |
| Interest expenses | - | (83.9) | - | (149.0) | (24.9) | **(257.8)** | **(2,010.8)** |
| Share of profits less losses of associated companies and joint ventures | 210.9 | 9.1 | 12.5 | 0.3 | 0.6 | **233.4** | **1,820.5** |
| Taxation | - | 1.0 | - | (132.5) | (12.2) | **(143.7)** | **(1,120.8)** |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | - | 162.2 | - | 363.4 | 2.3 | **527.9** | **4,117.6** |

**By principal business activity - 2008**

| For the year ended/at 31 December | The Philippines | | | Indonesia | | | |
|---|---|---|---|---|---|---|---|
| | Telecom-munications US$m | Infrastructure US$m | Natural Resources US$m | Consumer Food Products US$m | Head Office US$m | 2008 Total US$m | 2008* Total HK$m |
| **Revenue** | | | | | | | |
| Turnover | - | 112.8 | - | 3,992.5 | - | 4,105.3 | 32,021.3 |
| **Results** | | | | | | | |
| Recurring profit | 211.0 | 7.4 | (1.6) | 87.6 | (65.2) | 239.2 | 1,865.8 |
| **Assets and liabilities** | | | | | | | |
| Associated companies and joint ventures | 1,040.5 | 48.0 | 95.1 | 15.4 | 3.3 | 1,202.3 | 9,377.9 |
| Other assets | - | 1,940.6 | - | 4,039.9 | 16.2 | 5,996.7 | 46,774.3 |
| Total assets | 1,040.5 | 1,988.6 | 95.1 | 4,055.3 | 19.5 | 7,199.0 | 56,152.2 |
| Borrowings | - | 677.7 | - | 1,696.6 | 784.4 | 3,158.7 | 24,637.8 |
| Other liabilities | - | 745.0 | - | 862.7 | 57.4 | 1,665.1 | 12,987.8 |
| Total liabilities | - | 1,422.7 | - | 2,559.3 | 841.8 | 4,823.8 | 37,625.6 |
| **Other information** | | | | | | | |
| Depreciation and amortization | - | (29.4) | - | (76.6) | (0.5) | (106.5) | (830.7) |
| Interest income | - | 9.9 | - | 17.4 | 7.5 | 34.8 | 271.4 |
| Interest expenses | - | (27.5) | - | (120.6) | (37.2) | (185.3) | (1,445.3) |
| Share of profits less losses of associated companies and joint ventures | 194.8 | (1.2) | (1.2) | 0.5 | - | 192.9 | 1,504.6 |
| Taxation | - | 1.3 | - | (53.3) | (9.4) | (61.4) | (478.9) |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | - | 1,443.1 | - | 827.4 | - | 2,270.5 | 17,709.9 |

3. **Net borrowing costs**

| For the year ended 31 December | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
|---|---|---|---|---|
| Total borrowing costs | **257.8** | 185.3 | **2,010.8** | 1,445.3 |
| Less: interest income | **(27.5)** | (34.8) | **(214.5)** | (271.4) |
| **Net borrowing costs** | **230.3** | 150.5 | **1,796.3** | 1,173.9 |

4. **Profit before taxation**

| For the year ended 31 December | 2009 US$m | 2008 US$m | 2009* HK$m | 2008* HK$m |
|---|---|---|---|---|
| **Profit before taxation is stated after (charging)/crediting[(i)]** | | | | |
| Cost of inventories sold | **(1,959.1)** | (2,470.1) | **(15,281.0)** | (19,266.8) |
| Employees' remuneration | **(376.5)** | (347.3) | **(2,936.7)** | (2,708.9) |
| Cost of services rendered | **(205.4)** | (96.7) | **(1,602.1)** | (754.3) |
| Depreciation | **(94.2)** | (79.2) | **(734.8)** | (617.8) |
| Amortization of other intangible assets | **(83.7)** | (27.3) | **(652.8)** | (212.9) |
| Operating lease rentals | | | | |
| - Land and buildings | **(13.7)** | (8.6) | **(106.9)** | (67.1) |
| - Hire of plant and equipment | **(4.4)** | (3.6) | **(34.3)** | (28.1) |
| (Loss)/gain on sale of property, plant and equipment | **(9.6)** | 0.6 | **(74.9)** | 4.7 |
| Recognition of prepaid land premiums | **(8.1)** | (7.1) | **(63.2)** | (55.4) |
| Impairment losses | | | | |
| - Accounts receivable[(ii)] | **(7.3)** | (7.0) | **(56.9)** | (54.6) |
| - Property, plant and equipment | **(5.1)** | - | **(39.8)** | - |
| - Associated companies and joint ventures[(iii)] | **-** | (36.4) | **-** | (283.9) |
| - Goodwill[(iii)] | **-** | (0.5) | **-** | (3.9) |
| Loss on change in fair value of asset held for sale | **(2.8)** | - | **(21.8)** | - |
| Auditors' remuneration | | | | |
| - Audit services | **(2.1)** | (2.1) | **(16.4)** | (16.4) |
| - Other services | **(0.3)** | (0.6) | **(2.3)** | (4.7) |
| Gain on dilution of interest in subsidiary companies | **84.7** | 18.9 | **660.6** | 147.4 |
| Foreign exchange and derivative gains/(losses), net | **72.6** | (83.2) | **566.3** | (649.0) |
| Gain/(loss) on changes in fair value of plantations | **60.2** | (97.7) | **469.6** | (762.1) |
| Realized gain on sale of available-for-sale assets | **3.6** | 0.1 | **28.1** | 0.8 |
| Gain on divestment and dilution of interest in an associated company | **1.2** | 9.8 | **9.4** | 76.4 |
| Dividend income from available-for-sale assets | **0.1** | 0.5 | **0.8** | 3.9 |

*(i) Includes amounts (charged)/credited in respect of a discontinued operation*
*(ii) Included in distribution costs*
*(iii) Included in other operating income/(expenses), net*

5. **Taxation**

No Hong Kong profits tax (2008: Nil) has been provided as the Group had no estimated assessable profits (2008: Nil) in Hong Kong for the year. Taxation on assessable profits generated outside Hong Kong has been provided at the rates of taxation prevailing in the countries in which the Company's subsidiary companies operate.

| For the year ended 31 December | 2009 US$m | 2008 US$m | 2009* HK$m | 2008* HK$m |
|---|---|---|---|---|
| **Subsidiary companies - overseas** | | | | |
| Current taxation | **144.7** | 121.6 | **1,128.7** | 948.5 |
| Deferred taxation | **(1.0)** | (60.2) | **(7.8)** | (469.6) |
| **Total** | **143.7** | 61.4 | **1,120.9** | 478.9 |

Included within the share of profits less losses of associated companies and joint ventures is taxation of US$84.3 million (HK$657.5 million) (2008: US$93.7 million or HK$730.9 million) and which is analyzed as follows.

| For the year ended 31 December | 2009 US$m | 2008 US$m | 2009* HK$m | 2008* HK$m |
|---|---|---|---|---|
| **Associated companies and joint ventures - overseas** | | | | |
| Current taxation | **78.3** | 94.9 | **610.7** | 740.2 |
| Deferred taxation | **6.0** | (1.2) | **46.8** | (9.3) |
| **Total** | **84.3** | 93.7 | **657.5** | 730.9 |

6. **A discontinued operation**

Following a strategic review of MPIC's businesses which focuses on core infrastructure, MPIC's directors decided in late 2008 to divest its interest in the property business, Landco Pacific Corporation (Landco), which was operated by MPIC. As at 31 December 2008, the Group's investment in Landco was classified as a disposal group held for sale. In June 2009, MPIC disposed of 17.0% interest in Landco for Pesos 203 million (US$4.2 million or HK$32.8 million), thereby reducing its interest in Landco from 51.0% to 34.0%. Following this transaction, the Group's remaining 34.0% interest in Landco was classified under assets held for sale.

7. **Profit attributable to owners of the parent**

The profit attributable to owners of the parent includes US$23.7 million (HK$184.9 million) of net foreign exchange and derivative gains (2008: losses of US$46.9 million or HK$365.8 million), which represent the foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives, US$10.0 million (HK$78.0 million) of gain (2008: loss of US$16.0 million or HK$124.8 million) on changes in fair value of plantations and US$81.3 million (HK$634.1 million) (2008: US$24.5 million or HK$191.1 million) of net non-recurring gains.

**Analysis of foreign exchange and derivative gains/(losses)**

| **For the year ended 31 December** | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
|---|---|---|---|---|
| Foreign exchange and derivative gains/(losses) | | | | |
| - Subsidiary companies | **72.6** | (83.2) | **566.3** | (649.0) |
| - Associated companies and joint ventures | **2.6** | (17.7) | **20.3** | (138.0) |
| Subtotal | **75.2** | (100.9) | **586.6** | (787.0) |
| Attributable to taxation and minority interest | **(51.5)** | 54.0 | **(401.7)** | 421.2 |
| **Total** | **23.7** | (46.9) | **184.9** | (365.8) |

The non-recurring gains of US$81.3 million (HK$634.1 million) for 2009 mainly represent gains on dilution of the Group's interest in MPIC. The non-recurring gains of US$24.5 million (HK$191.1 million) for 2008 mainly include (i) a gain on dilution of the Group's interest in Indofood of US$18.9 million (HK$147.4 million) (ii) a gain on divestment and dilution of the Group's interest in PLDT of US$9.8 million (HK$76.4 million) (iii) MPIC's gains arising from increase in interests in Maynilad and MDI totaling US$13.4 million (HK$104.5 million) (iv) a gain of US$10.5 million (HK$81.9 million) from a reduction in Indofood's deferred tax liabilities due to reduction in future tax rates and (v) MPIC's gain on sale of assets of US$3.9 million (HK$30.4 million), partly offset by a Group's impairment provision of US$36.4 million (HK$283.9 million) in respect of its investment in Philex.

Included within the profit attributable to owners of the parent for the year ended 31 December 2009 is a profit of US$5.1 million (HK$39.8 million) (2008: US$51.2 million or HK$399.4 million) attributable to the Company.

8. **Ordinary share dividends**

| | Per ordinary share | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|
| | **2009 US¢** | 2008 US¢ | **2009* HK¢** | 2008* HK¢ | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
| Interim | **0.51** | 0.38 | **4.00** | 3.00 | **16.5** | 12.3 | **128.7** | 95.9 |
| Proposed final | **1.03** | 0.77 | **8.00** | 6.00 | **39.6** | 24.7 | **308.9** | 192.7 |
| **Total** | **1.54** | 1.15 | **12.00** | 9.00 | **56.1** | 37.0 | **437.6** | 288.6 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. **Earnings per share attributable to owners of the parent**

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the parent of US$401.6 million (HK$3,132.5 million) (2008: US$200.8 million or HK$1,566.2 million), and the weighted average number of ordinary shares of 3,428.5 million (2008: 3,397.7 million (Restated)) in issue during the year.

The calculation of diluted earnings per share is based on: (i) the profit for the year attributable to owners of the parent of US$401.6 million (HK$3,132.5 million) (2008: US$200.8 million or HK$1,566.2 million) reduced by the dilutive impact of US$6.8 million (HK$53.0 million) (2008: US$0.3 million or HK$2.3 million) in respect of the exercise of share options issued by its subsidiary and associated companies and, for 2008 only, US$6.1 million (HK$47.6 million) in respect of the convertible notes issued by its previous joint venture DMWC (which has become a subsidiary company since July 2008) and (ii) a share base equal to the aggregate of the weighted average number of ordinary shares of 3,428.5 million (2008: 3,397.7 million (Restated)) in issue during the year (as used in the basic earnings per share calculation) and the weighted average number of ordinary shares of 50.6 million (2008: 57.0 million (Restated)) assumed to have been issued at no consideration on the deemed exercise of all share options of the Company during the year.

10. **Other intangible assets**

| **At 31 December** | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
|---|---|---|---|---|
| Concession assets - Water distribution | **987.0** | 837.9 | **7,698.6** | 6,535.6 |
| Concession assets - Toll roads | **359.0** | 354.6 | **2,800.2** | 2,765.9 |
| Brands | **382.4** | 346.0 | **2,982.7** | 2,698.8 |
| **Total** | **1,728.4** | 1,538.5 | **13,481.5** | 12,000.3 |

Concession assets - Water distribution represent the concession held by Maynilad for its exclusive right granted by Metropolitan Waterworks and Sewerage System (MWSS) on behalf of the Philippine government to provide water and sewerage services and charge users for the services provided in the area of West Metro Manila during its concession period. Concession assets - Toll roads represent the concession held by Manila North Tollways Corporation (MNTC) for its right, interests and privileges to finance, design, construct, operate and maintain toll roads, toll facilities and other facilities generating toll-related and non-toll related income in respect of the Manila North Expressway (also known as North Luzon Expressway (NLEX)) during its concession period. Brands represent the brands held by PT Indolakto for its various milk-related products.

11. **Accounts receivable, other receivables and prepayments**

Included in accounts receivable, other receivables and prepayments are accounts receivables of US$238.4 million (HK$1,859.5 million) (2008: US$258.1 million or HK$2,013.2 million), with an ageing profile as below.

| **At 31 December** | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
|---|---|---|---|---|
| 0 to 30 days | **190.9** | 204.3 | **1,489.0** | 1,593.5 |
| 31 to 60 days | **10.5** | 12.0 | **81.9** | 93.6 |
| 61 to 90 days | **11.4** | 6.7 | **88.9** | 52.3 |
| Over 90 days | **25.6** | 35.1 | **199.7** | 273.8 |
| **Total** | **238.4** | 258.1 | **1,859.5** | 2,013.2 |

Indofood allows export customers 60 days of credit and local customers an average of 30 days of credit. MPIC (a) allows 60 days of credit for its water service customers and (b) collects toll fees through its associated company, Tollways Management Corporation (TMC), by cash, by prepaid and reloadable electronic toll collection devices and by credit card payment.

12. **Accounts payable, other payables and accruals**

Included in accounts payable, other payables and accruals are accounts payables of US$185.0 million (HK$1,443.0 million) (2008: US$233.4 million or HK$1,820.5 million), with an ageing profile as below.

| **At 31 December** | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
|---|---|---|---|---|
| 0 to 30 days | **162.9** | 220.7 | **1,270.6** | 1,721.5 |
| 31 to 60 days | **5.1** | 8.5 | **39.8** | 66.3 |
| 61 to 90 days | **11.6** | 2.6 | **90.5** | 20.3 |
| Over 90 days | **5.4** | 1.6 | **42.1** | 12.4 |
| **Total** | **185.0** | 233.4 | **1,443.0** | 1,820.5 |

13. **Contingent liabilities**

At 31 December 2009, except for US$62.1 million (HK$484.4 million) (2008: US$53.7 million or HK$418.9 million) guarantees given by Indofood for loan facilities obtained by certain plantation farmers in relation to arrangements for those farmers' production and sale of fresh fruit bunches to Indofood, neither the Group nor the Company had any significant contingent liabilities (2008: Nil).

14. **Employee information**

| **For the year ended 31 December** | **2009 US$m** | 2008 US$m | **2009* HK$m** | 2008* HK$m |
|---|---|---|---|---|
| Employee's remuneration (including Directors' remuneration) | **376.5** | 347.3 | **2,936.7** | 2,708.9 |

| Number of employees | **2009** | 2008 |
|---|---|---|
| At 31 December | **68,416** | 66,452 |
| Average for the year | **67,344** | 65,015 |

15. **Subsequent events**

(A) On 28 January 2010, Two Rivers Pacific Holdings Corporation (Two Rivers), a Philippine affiliate of the Company, completed its acquisition of an additional interest in Philex of approximately 5.9% at a total consideration of Pesos 6.0 billion (US$130.9 million or HK$1,021.0 million). The consideration is payable in four installments; the first installment of 10% was paid in January 2010 and the remaining 90% payable in three installments of 10%, 10% and 70% in January 2011, January 2012 and January 2013, respectively. The outstanding installment payables are interest-bearing and at an interest rate of 5.5% per annum. The transaction increased Two Rivers' interest in Philex from 9.2% to approximately 15.1%. In addition, the Group also held a 31.5% interest in Philex.

(B) On 1 March 2010, MPIC, Pilipino Telephone Corporation (Piltel) (an indirect subsidiary company of PLDT) and Rightlight Holdings, Inc. (subsequently renamed Beacon Electric Asset Holdings, Inc. (Beacon Electric)) (a wholly owned special purpose vehicle of MPIC set up with the sole purpose of holding shares in Meralco) entered into an Omnibus Agreement to restructure their current shareholdings in Meralco. Under the Omnibus Agreement, (a) MPIC and Piltel will consolidate approximately 163.6 million common shares of Meralco (representing an approximately 14.5% interest in Meralco) and 154.2 million common shares of Meralco (representing an approximately 13.7% interest in Meralco), respectively, under Beacon Electric; thus giving Beacon Electric an approximately 28.2% interest in Meralco and (b) Piltel will acquire a 50% interest in Beacon Electric such that Beacon Electric will become a 50:50 joint venture owned between MPIC and Piltel.

The above transactions involve (a) a sale by MPIC to Beacon Electric of 163.6 million common shares of Meralco at a total consideration of Pesos 24.5 billion (US$531.2 million or HK$4,143.2 million) or Pesos 150 (US$3.25 or HK$25.3) per share, (b) a subscription by MPIC of 1,156.5 million common shares of Beacon Electric at a price of Pesos 20 (US$0.43 or HK$3.38) per share and 801.0 million preferred shares of Beacon Electric at a price of Pesos 10 (US$0.22 or HK$1.69) per share at a total consideration of Pesos 31.1 billion (US$674.0 million or HK$5,257.5 million), (c) a sale by Piltel of 154.2 million common shares of Meralco to Beacon Electric at a total consideration of Pesos 23.1 billion (US$500.6 million or HK$3,905.1 million) or Pesos 150 (US$3.25 or HK$25.3) per share, (d) a subscription by Piltel of 1,156.5 million common shares of Beacon Electric at a total consideration of Pesos 23.1 billion (US$500.6 million or HK$3,905.1 million) or Pesos 20 (US$0.43 or HK$3.38) per share and (e) a sale by MPIC of 12,500 common shares of Beacon Electric to Piltel at a consideration of Pesos 12,500 (US$271 or HK$2,110) or Peso 1 (US$0.02 or HK$0.17) per share. No gain or loss will be recorded by the Group from these transactions.

In addition, MPIC assigned to Beacon Electric a right to be granted a call option in respect of 74.7 million common shares of Meralco (representing an approximately 6.6% interest in Meralco) owned by First Philippine Holdings Corporation (FPHC). FPHC granted the call option to Beacon Electric on 1 March 2010 in return for Pesos 3 million (US$0.1 million or HK$0.5 million) consideration. The exercise price for the call option is Pesos 300 (US$6.4 or HK$50.6) per Meralco share and the call option exercisable at any time from 15 March 2010 to 15 May 2010. On 23 March 2010, the boards of MPIC and Beacon Electric decided to exercise the call option subject to approval by the Company's shareholders on a special general meeting to be held on 30 March 2010. The total consideration of Pesos 22.4 billion (US$485.1 million or HK$3,783.5 million) will be satisfied by a combination of internal resources and bank borrowings.

16. **Comparative amounts**

As explained in Note 1, due to the adoption of HKAS 1 (Revised) and HKFRS 8 during the year, the presentation of certain balances has been revised to comply with such changes. In addition, the comparative basic and diluted earnings per share figures have been restated to take into account the effect of a rights issue completed in December 2009. Accordingly, certain comparative amounts have been reclassified or restated to conform with the current year's accounting treatments and presentation.

* *The Company maintains its accounts and reports to its shareholders in United States dollars. The figures shown in Hong Kong dollars are for illustration only and are based on a fixed exchange rate of 7.8 Hong Kong dollars to one United States dollar.*

**REVIEW OF OPERATIONS**
First Pacific Group companies reported strong improvement in results for 2009 which reflects their inherent strength to deliver results even in times of global stress.

Below is an analysis of results by individual company.

**Contribution Summary**

| | Turnover | | Contribution to Group profit(i) | |
|---|---|---|---|---|
| **For the year ended 31 December** | **2009** | 2008 | **2009** | 2008 |
| US$ millions | | | | |
| PLDT(ii) | **-** | - | **205.3** | 211.0 |
| MPIC | **336.9** | 112.8 | **33.0** | 7.4 |
| Indofood | **3,588.7** | 3,992.5 | **89.2** | 87.6 |
| Philex(ii) | **-** | - | **7.7** | (1.6) |
| **From operations** | **3,925.6** | 4,105.3 | **335.2** | 304.4 |
| Head Office items: | | | | |
| - Corporate overhead | | | **(17.6)** | (15.9) |
| - Net interest expense | | | **(24.0)** | (29.9) |
| - Other expenses | | | **(7.0)** | (19.4) |
| **Recurring profit** | | | **286.6** | 239.2 |
| Foreign exchange and derivative gains/(losses)(iii) | | | **23.7** | (46.9) |
| Gain/(loss) on changes in the fair value of plantations | | | **10.0** | (16.0) |
| Non-recurring items(iv) | | | **81.3** | 24.5 |
| **Profit attributable to owners of the parent** | | | **401.6** | 200.8 |

*(i) After taxation and minority interest, where appropriate*
*(ii) Associated companies*
*(iii) Foreign exchange and derivative gains/losses represent the gains/losses on foreign exchange translation differences on the Group's unhedged foreign currency denominated borrowings and payables and the changes in the fair values of derivatives.*
*(iv) 2009's non-recurring gains of US$81.3 million mainly represent gains on dilution of the Group's interest in MPIC. 2008's net non-recurring gains of US$24.5 million mainly comprise (i) a gain on dilution of the Group's investment in Indofood of US$18.9 million, (ii) a gain on divestment and dilution of the Group's interest in PLDT of US$9.8 million, (iii) MPIC's gains arising from an increase in interests in Maynilad and MDI totaling US$13.4 million, (iv) a gain of US$10.5 million from a reduction in Indofood's deferred tax liabilities due to reduction in future tax rates and (v) MPIC's gain on sale of assets of US$3.9 million, partly offset by a Group's impairment provision of US$36.4 million in respect of its investment in Philex.*

| | |
|---|---|
| Recurring profit ↑20% | ▪ to US$286.6 million from US$239.2 million<br>▪ comprising a significantly improved performance by MPIC, increased contribution from Philex, lower Head Office's option costs and interest expenses<br>▪ partially offset by a lower contribution from PLDT as its strong local currency performance have been impacted negatively on translation into U.S. dollars by the depreciation of the average peso exchange rate |
| Reported profit ↑100% | ▪ to US$401.6 million from US$200.8 million<br>▪ reflecting the increase in recurring profit and non-recurring gain referred to above<br>▪ reflecting a 9% appreciation of the closing rupiah against the U.S. dollar giving rise to a net foreign exchange and derivative gains of US$23.7 million (2008: losses of US$46.9 million)<br>▪ recognized US$10.0 million (2008: losses of US$16.0 million) gains on increase in fair value of plantations as crude palm oil prices have recovered during the second quarter of 2009 |
| Turnover ↓4% | ▪ to US$3,925.6 million from US$4,105.3 million<br>▪ principally reflecting Indofood's lower turnover, as a result of lower CPO and flour prices compared with those realized in 2008 |
| Non-recurring gains ↑2.3 times | ▪ to US$81.3 million from US$24.5 million<br>▪ mainly represents gains on dilution of the Group's effective interest in MPIC |

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 are summarized below.

| Exchange rates against the U.S. dollar | | | |
|---|---|---|---|
| At 31 December | **2009** | 2008 | One year change |
| **Closing** | | | |
| Peso | **46.20** | 47.52 | +2.9% |
| Rupiah | **9,400** | 10,950 | +16.5% |

| Exchange rates against the U.S. dollar | | | |
|---|---|---|---|
| For the year ended 31 December | **2009** | 2008 | One year change |
| **Average** | | | |
| Peso | **47.81** | 44.68 | -6.5% |
| Rupiah | **10,349** | 9,700 | -6.3% |

In 2009, the Group recorded net foreign exchange and derivative gains of US$23.7 million (2008: losses of US$46.9 million), which may be further analyzed as follows:

| US$ millions | **2009** | 2008 |
|---|---|---|
| Head Office | **(3.0)** | (6.3) |
| PLDT | **2.0** | (6.1) |
| MPIC | **1.8** | (9.1) |
| Indofood | **23.9** | (26.1) |
| Philex | **(1.0)** | 0.7 |
| **Total** | **23.7** | (46.9) |

**Rights Issue and Additional Investments**
During the year, First Pacific raised US$282 million by way of rights issue for funding additional complementary investments, and expanded the Group's portfolio by investing approximately US$1.3 billion (2008: US$1.0 billion) in its core business sectors in the Philippines.

Natural Resources
- First Pacific acquired an additional 11.4% interest in Philex (US$111 million)
- Two Rivers, First Pacific's Philippine affiliate, acquired 9.2% interest in Philex (US$202 million)
- Philex acquired the remaining 50% equity interest in Silangan Project (US$55 million)
- Philex increased its stake in Pitkin Petroleum to 21% in the Philippines (US$14 million)

Infrastructure/telecommunications
- MPIC acquired a 14.5% interest in Meralco (US$520 million)
- PLDT, through its subsidiary Piltel, acquired a 20% interest in Meralco (US$414 million)

**Dividends**
First Pacific Board recommended a final dividend of HK8.00 cents (U.S. 1.03 cents) per share (2008: HK6.00 cents (U.S. 0.77 cent), bringing total regular dividends (including an interim dividend of HK4.00 cents (U.S. 0.51 cent) per share) for the full year to HK12.00 cents (U.S. 1.54 cents) per share (2008: HK9.00 cents (U.S. 1.15 cent)), an increase of 33% and representing approximately 20% payout of the recurring profit.

The First Pacific Board has formally adopted a policy for the Company to pay dividend of at least 25% of the recurring profit commencing 2010.

**Debt Profile**
At 31 December 2009, gross debt at the Head Office stood at US$921.4 million. The company refinanced the US$150 million loans due to be repaid in the fourth quarter of 2009 with a two-year term loan and an additional borrowing of US$100 million for funding First Pacific's investments in Philex and supporting MPIC's investments in Meralco. All bank loans are on a floating interest rate basis with a maturity profile of 2011 to 2013.

During 2009, Head Office entered into US$245.0 million (HK$1,911.0 million) interest rate swap contracts to change the interest rate from floating to fixed basis. Net interest expense declined by 20% to US$24.0 million (HK$187.2 million) resulting from lower average interest rates during the year.

**Interest Cover**
For 2009, Head Office's recurring operating cash inflow was approximately US$202 million and cash interest payments were approximately US$21 million. Cash interest cover stood at approximately 9.6 times.

**Foreign Currency Hedging**
At the Head Office, First Pacific hedges only declared dividends from operating companies, mainly peso dividends from PLDT. A two (2) years forward contract was entered in December 2009 to hedge a portion of the peso dividend income from PLDT. Rupiah dividends from Indofood are not hedged due to the high cost of such.

**Interest Rate Hedging**
Since all the bank loans are on a floating rate basis, to manage the interest rate risk, a 3.75 years interest rate swap contract to convert the interest rate of a US$200 million from floating to fixed was entered in April 2009.
Another 3 years interest rate swap contract was entered in November 2009 to hedge another US$45 million floating interest rate exposure.

**2010 Outlook**
Prospects for First Pacific's businesses in the year of 2010 are sanguine, as demonstrated in the results for the second half of 2009 of Group companies, where their resilience enabled the Group to grow its earnings and cash flows, such that the Company was able to deliver improved return to shareholder for the fifth consecutive year.

Following a period of significant investment activities, the Company's focus remains intently on improving performance of the Group's businesses and delivering higher profits and value in 2010.

**PLDT**

PLDT contributed a profit of US$205.3 million to the Group (2008: US$211.0 million). This represents 61% of First Pacific's aggregate contribution derived from the operations of subsidiary and associated companies for 2009. This profit contribution (after the impact of a 7% depreciation of the average peso rate against the U.S. dollar) was a reflection of higher wireless service revenues, lower provision for income taxes on account of the lower Philippine corporate income tax rate, partly offset by higher employee compensation and benefit costs.

For 2009, the average inflation rate in the Philippines decreased to 3.2% from 9.3% in 2008.

| | |
|---|---|
| Consolidated core net income ↑8% | ▪ to Pesos 41.1 billion (US$859.7 million) from Pesos 38.1 billion (US$852.7 million)<br>▪ reflecting a 3% increase in service revenues in peso terms<br>▪ lower provision for income tax resulting from the reduction of the Philippine corporate income tax rate to 30% from 35% starting 2009<br>▪ recognition of a 20% equity share in the earnings of Meralco from 15 July 2009 to 31 December 2009 amounted to Pesos 398 million (US$8.3 million)<br>▪ a 7% increase in cash operating expenses |
| Reported net income ↑15% | ▪ to Pesos 39.8 billion (US$832.5 million) from Pesos 34.6 billion (US$774.4 million)<br>▪ resulting principally from an 8% increase in consolidated core net income<br>▪ net forex and derivative gains of Pesos 351.4 million (US$7.3 million) due to the 3% appreciation of the closing peso against the U.S. dollar |
| Consolidated service revenues ↑2% | ▪ to Pesos 145.6 billion (US$3,046.7 million) from Pesos 142.9 billion (US$3,197.4 million)<br>▪ resulting from a 3% increase in data and ICT revenues and stable voice revenues |
| EBITDA ↓2% | ▪ to Pesos 86.2 billion (US$1,803.0 million) from Pesos 87.7 billion (US$1,962.8 million) |
| EBITDA margin | ▪ to 59% of service revenues with 62% for wireless, 49% for fixed line and 12% for ICT |
| Consolidated free cash flow ↓9% | ▪ to Pesos 44.0 billion (US$920.3 million) from Pesos 47.9 billion (US$1,072.1 million)<br>▪ capex increased 11% to Pesos 28.1 billion (US$587.7 million)<br>▪ higher interest expense resulting from higher average debt level |
| Consolidated debt | ▪ to US$2.2 billion from US$1.6 billion<br>▪ U.S. dollar denominated debts declined to 48% from 79%; 22% of total debt is unhedged taking into account the peso debts, hedges, and U.S. dollar cash holdings<br>▪ 67% of total debt are fixed-rate loans while 33% are floating-rate loans<br>▪ US$1,238 million of total debt matures in and after 2013 |
| Consolidated net debt ↑63% | ▪ to US$1.3 billion from US$0.8 billion |
| Net debt/EBITDA | ▪ to 0.7 times from 0.4 times |

**Dividend**
PLDT maintained its strong performance and free cash position despite the impact of higher capex and investment in an approximately 20% interest in Meralco. PLDT declared a final dividend of Pesos 76 (US$1.59), representing the committed 70% payout of core earnings and a special dividend of Pesos 65 (US$1.36) per share. Together with the interim dividend of Pesos 77 (US$1.61) per share, total dividends for 2009 amounted to Pesos 218 (US$4.56) per share (2008: Pesos 200 (US$4.48)), representing 100% payout of PLDT's consolidated core earnings.

**Share Buyback**
In 2008, PLDT's board approved a share buyback program of up to 5 million shares. As of 31 December 2009, PLDT had bought back 2.7 million shares into treasury at an average cost of Pesos 2,387 (US$50) per share.

During 2009, Piltel's board approved two share buyback programs of up to 86.5 million shares, representing approximately 0.7% of Piltel's issued shares. Piltel bought back 41.2 million shares at an average cost of Pesos 7.39 (US$0.15) per share.

PLDT and Piltel will continue to buy back its shares from the market on opportunistic basis.

**Wireless**
Smart's cellular subscriber base grew 17% to 41.3 million (2008: 35.2 million) representing approximately 55% of the total cellular market in the Philippines based on subscribers and approximately 59% in terms of revenue.

At the end of 2009, the cellular SIM penetration rate in the Philippines was approximately 83%. About 99% of Smart's subscribers are prepaid, with an average prepaid subscriber acquisition cost of approximately 24% of net blended prepaid ARPU of Pesos 175 (US$3.7).

Total broadband subscribers – Digital Subscriber Line ("DSL") fixed and wireless – grew 62% to over 1.6 million, which accounted for approximately 65% of the broadband market. Service revenues were up 25% to Pesos 13.8 billion (US$288.6 million) with DSL ARPU at approximately Pesos 1,178 (US$24.6) and net blended wireless ARPU at Pesos 647 (US$13.5).

New services launched during the year included:
*Smartalk* – unlimited calls offer to Smart Buddy and Smart Gold subscribers on Smart's nationwide network
*Smartalk Plus* – unlimited calls and on-net texting offer to Smart subscribers on the Smart's nationwide network
*Sandbox* – employing web platform for social networking, online music, game and video downloading, and other web services

| | |
|---|---|
| Wireless service revenues ↑2% | ▪ to Pesos 95.8 billion (US$2,003.8 million) from Pesos 93.6 billion (US$2,094.9 million)<br>▪ accounted for 66% of PLDT's consolidated service revenues<br>▪ reflecting revenue growth in wireless broadband and cellular voice |
| Wireless EBITDA ↓2% | ▪ to Pesos 59.4 billion (US$1,242.4 million) from Pesos 60.7 billion (US$1,358.5 million)<br>▪ reflecting higher cash operating costs, largely from higher rental costs for international and domestic leased circuits and sites, as well as higher compensation and benefit costs due to merit-based increases |
| EBITDA margin | ▪ to 62% from 65% |
| Net blended ARPU ↓13% | ▪ to Pesos 188 (US$3.9) from Pesos 217 (US$4.9)<br>▪ most of the net adds were from the lower end of the market<br>▪ subscribers shifted to bucket-priced SMS packages which accounted for 57% of total cellular data revenues |

Smart continues its commitment to offer affordable premier telecommunication services to its customers which are responsive to its customers' needs and budgets. In addition to bucket-priced SMS packages, Smart deploys various technologies to meet increasing demand for higher quality broadband services. Its 3G and HSPA networks cover approximately 50% and 44% of the Philippine population, respectively.

Smart's latest world-first broadband service, *SmartBro SurfTV,* was launched in February 2010. This latest offering allows Internet access through the television set using a SIM-enabled modem. This innovative service targets the lower income group which cannot afford personal computers. Following Smart's advocacy of *Internet for All*, it will continue to make the Internet more affordable and widely available through its various offerings.

The success of *Smartalk* and *Smartalk Plus* indicates that there is a demand for affordable voice services. Smart will pursue more aggressive initiatives to offer value-driven voice services.

**Fixed Line**
During the year, fixed line subscribers increased 2% to 1.8 million mainly contributed by marketing initiatives and specific programs for retail customers, corporate clients and small-medium size enterprises ("SME").

| | |
|---|---|
| Fixed line service revenues ↑4% | ▪ to Pesos 51.1 billion (US$1,068.8 million) from Pesos 49.3 billion (US$1,103.4 million)<br>▪ increased to 35% of PLDT's consolidated service revenues<br>▪ revenues from data service accounted for 42% of total fixed line service revenues (2008: 38%)<br>▪ reflecting increases in corporate data and DSL services revenues<br>▪ lower revenues from local exchange, national long distance and international long distance call services as some customers shifted to other means of communications |
| Fixed line EBITDA ↓2% | ▪ to Pesos 25.2 billion (US$533.4 million) from Pesos 25.9 billion (US$579.7 million)<br>▪ reflecting a 7% increase in cash operating expenses including rental of international leased circuits for supporting broadband/data growth |
| EBITDA margin | ▪ to 49% from 52% |

The fixed line business continues to leverage on PLDT's fixed and wireless networks as it aims to expand and to create new products for the residential, corporate and SME market segments. Among its segment-specific services and offerings are the fixed-wireless landline services *PLDT Landline Plus*, and *Call All* which allow free landline calls within a limited calling area. Tailor-made voice and broadband bundled packages are offered to SME.

The ongoing network upgrading to an all-IP next generation network ("NGN") will significantly improve the network's efficiency and capability, particularly data-related services.

**Information and Communications Technology (ICT)**
ePLDT provides customer interaction services (CIS) under the *Ventus* brand and knowledge processing solutions (KPS) services primarily through SPi Technologies, Inc. ("SPi"). CIS employs about 5,190 customer service representatives and operates approximately 7,140 seats at seven customer interaction service facilities.

| | |
|---|---|
| ePLDT's service revenues ↑5% | ▪ to Pesos 10.9 billion (US$228.0 million) from Pesos 10.4 billion (US$232.8 million)<br>▪ accounted for 8% of PLDT's consolidated service revenues<br>▪ reflecting primarily a 67% growth in data center revenue due to an increase in co-location rental revenues, server hosting, disaster recovery and business continuity service<br>▪ a slight decline in revenues from call center and KPS caused by adverse global business conditions |
| ePLDT EBITDA ↑26% | ▪ to Pesos 1.3 billion (US$27.2 million) from Pesos 1.1 billion (US$24.6 million)<br>▪ reflecting a 7% depreciation of the average US$/Peso exchange rate<br>▪ slightly higher cash operating expenses in relation to compensation and benefits, maintenance and rent |
| EBITDA margin | ▪ to 12% from 10% |

During the year, *Vitro* data center recorded significant revenue growth. SPi continues to focus on growing the publishing and medical billing businesses. ePLDT remains focused on improving revenues and operating margins, as well as exploring new business opportunities. A re-organization to consolidate the call center and KPS businesses is planned.

**Investment in Meralco**
On 14 July 2009, PLDT − through its subsidiary Piltel − completed the acquisition of an approximately 20% interest in the Manila Electric Company ("Meralco") for a consideration of Pesos 20.1 billion (US$420.4 million).

On 1 March 2010, Piltel's board approved to consolidate its approximately 13.7% interest in Meralco with Metro Pacific Investments Corporation's ("MPIC") 14.5% interest in Meralco to Beacon Electric Asset Holdings, Inc. ("Beacon

Electric"). Upon the completion of the transactions, Beacon Electric will have a 28.2% interest in Meralco and a call option for an additional 6.6% interest in Meralco exercisable during the period from March 15, 2010 to May 15, 2010.

| | |
|---|---|
| Meralco's revenues ↓4% | ▪ to Pesos 184,872 million (US$3,866.8 million) from Pesos 191,775 million (US$4,292.2 million)<br>▪ reflecting the reduction in generation and transmission charges which were larger than the positive impact from higher energy sales and the impact of the performance-based regulation ("PBR") rate setting mechanism effective from May 2009 |
| Meralco's core net income ↑1.7 times | ▪ to Pesos 7,003 million (US$146.5 million) from Pesos 2,605 million (US$58.3 million)<br>▪ reflecting a Pesos 0.26 per kilowatt-hour increase in tariff under the PBR implemented from May 2009 |
| EBITDA margin | ▪ to 7.17% from 5.75% |
| Consolidated debt ↓18% | ▪ to Pesos 20.7 billion (US$448.1 million) from Pesos 25.3 billion (US$532.4 million)<br>▪ reflecting an improved cash position of Meralco arising from the PBR increase<br>▪ 99.7% is local borrowing and 93% is long-term |
| System loss | ▪ to 8.61% from 9.28%, within the 9.5% system loss cap |
| Number of customers ↑3% | ▪ to 4.7 million from 4.6 million<br>▪ reflecting an increase of residential and commercial users |

In 2009, Meralco's board declared dividends of Peso 1 (US$0.02) per share and Pesos 1.5 (US$0.03) per share. In February 2010, the Meralco board approved a dividend policy of a regular payout of 50% of core earnings plus a "look back" approach at the end of the year for any supplementary special dividend.

In December 2009, Meralco received the regulatory approval to increase tariff by another Pesos 0.27 per kilowatt-hour effective January 2010. The implementation has been voluntarily deferred until related issues have been resolved.

A synergy team composed of members from PLDT and Meralco, is working closely to identify areas of cooperation, including co-location of facilities, joint pole agreements, use of each other's fiber optic networks, cross marketing and selling to each other's subscriber bases, as well as broadband over power lines and prepaid metering.

**2010 Outlook**
2010 is viewed by PLDT with guarded optimism. Growth is expected to come from broadband, fixed line revenues from corporate and SME markets, and improvements in its BPO business. However, the cellular business faces challenges given high market penetration, the market's increasing preference for unlimited offers and multiple SIM ownership, as well as competition from social networking and broadband.

With the expected softness in revenues, PLDT are looking to control cash operating expenses in order to maintain profit growth. Nevertheless, PLDT will continue to invest in its network with expected capex for 2010 of Pesos 28.6 billion (US$619.0 million), representing approximately 19% of 2010 forecast service revenues of Pesos 150 billion (US$3,246.8 million). Core income is expected to be slightly higher than the Pesos 41.1 billion (US$859.7 million) core net income for 2009.

**Reconciliation of reported results between PLDT and First Pacific**

PLDT's operations are principally denominated in peso, which averaged Pesos 47.81 (2008: 44.68) 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. dollars. Philippine GAAP and Hong Kong GAAP are largely based on International Financial Reporting Standards (IFRSs), however, certain adjustments 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 | **2009** | 2008 |
|---|---|---|
| Net income under Philippine GAAP | **39,781** | 34,635 |
| Preference dividends(i) | **(456)** | (456) |
| Net income attributable to common shareholders | **39,325** | 34,179 |
| Differing accounting and presentational treatments(ii) | | |
| - Reclassification of non-recurring items | **1,708** | 2,443 |
| - Others | **(3,502)** | (1,631) |
| Adjusted net income under Hong Kong GAAP | **37,531** | 34,991 |
| Foreign exchange and derivative (gains)/losses(iii) | **(351)** | 1,000 |
| PLDT's net income as reported by First Pacific | **37,180** | 35,991 |
| US$ millions | | |
| Net income at prevailing average rates for 2009: Pesos 47.81 and 2008: Pesos 44.68 | **777.7** | 805.5 |
| Contribution to First Pacific Group profit, at an average shareholding of 2009: 26.4% and 2008: 26.2% | **205.3** | 211.0 |

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

(ii) *Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP, and other presentational differences. The principally adjustments 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 2009 of Pesos 1.7 billion (2008: Pesos 2.4 billion) principally represents asset impairment provisions.*
- *Others: The adjustment principally relates to the accrual of withholding tax on PLDT's net income in accordance with the requirements of HKAS 12 "Income Taxes".*

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

## MPIC

During the year, MPIC invested a total of Pesos 25.0 billion (US$529.0 million) (2008: Pesos 22.3 billion (US$475.9 million)) to expand its core business portfolio for strengthening its position as a preeminent infrastructure group in the Philippines which consists of:

- Pesos 24.5 billion (US$520.1 million) in Power
- Pesos 252 million (US$5.3 million) in Port operations
- Pesos 170 million (US$3.6 million) in Healthcare

It has established a business portfolio of quality assets offering water distribution, tollroads, power distribution, healthcare and port development comprising:

- 58.0% in Maynilad Water Services, Inc. ("Maynilad")
- 99.8% in Metro Pacific Tollways Corporation ("MPTC") which owns 67.1% in Manila North Tollways Corporation ("MNTC")
- 14.5% in Manila Electric Company ("Meralco")
- 34.8% in Medical Doctors, Inc. ("MDI"), which owns 100% of Colinas Verdes Hospital Managers Corporation ("CVHMC"), the operator of Cardinal Santos Medical Center ("CSMC")
- 34.9% in Davao Doctors Hospital ("DDH")
- 35.0% in Manila North Harbour ("MNH")

MPIC's contribution to the Group increased 3.5 times to US$33.0 million (2008: US$7.4 million) reflecting higher profit levels across all of its businesses, and equity accounted earnings from its 14.5% interest in Meralco. These were partly offset by higher interest expenses and overheads.

| | |
|---|---|
| Revenues ↑2.2 times | ▪ to Pesos 16,108 million (US$336.9 million) from Pesos 5,041 million (US$112.8 million)<br>▪ reflecting improved performance from Maynilad and the first full year contribution from MPTC |
| Consolidated core net income ↑4.9 times | ▪ to Pesos 2,047 million (US$42.8 million) from Pesos 347 million (US$7.8 million)<br>▪ reflecting Maynilad's contribution to core net income increased 4 times to Pesos 1,540 million (US$32.2 million)<br>▪ Meralco's 3 months contribution of Pesos 212 million (US$4.4 million)<br>▪ MPTC 's first full year contribution of Pesos 1,279 million (US$26.8 million)<br>▪ Healthcare businesses' contribution to core net income increased 58% to Pesos 174 million (US$3.6 million)<br>▪ Maynilad, MPTC, Meralco and healthcare accounted for 48%, 40%, 7% and 5% respectively of MPIC consolidated profit from operations |
| Consolidated reported income ↑3.4 times | ▪ to Pesos 2,300 million (US$48.1 million) from Pesos 526 million (US$11.8 million)<br>▪ reflecting the increase in core net income referred to above and a non-recurring income of Pesos 252 million (US$5.3 million), partly offset by higher interest expenses |
| Non-recurring income ↑41% | ▪ to Pesos 253 million (US$5.3 million) from Pesos 179 million (US$4.0 million)<br>▪ the largest item being income arising from the settlement of various transmission charge recovering matters following the rate rebasing exercise at Maynilad |
| Consolidated debt ↑33% | ▪ to Pesos 42.8 billion (US$926.1 million) from Pesos 32.2 billion (US$677.1 million)<br>▪ reflecting additional borrowings for funding investments in Meralco |

**MPIC share placing**
MPIC successfully increased the free float to 29% through offering Pesos 14.3 billion (US$300 million) new MPIC common shares to international investors. The equity raising strengthened its capital structure and broadened the shareholder base.

**Maynilad** owns the sole water distribution concession for the western half of Metro Manila. Metropolitan Waterworks and Sewerage System ("MWSS") approved in September 2009 the extension of the concession for 15 years to 2037. Currently, only 7.8 million of the 9.1 million population within the concession area are able to receive water services.

From May 2009, Maynilad's average tariff increased by Pesos 7.44 per cubic meter or 22.6% which comprises Pesos 5.02 per cubic meter for rate rebasing and Pesos 2.42 for Consumer Price Index ("CPI") adjustment.

| | |
|---|---|
| Revenues ↑29% | ▪ to Pesos 10,619 million (US$222.1 million) from Pesos 8,245 million (US$184.5 million)<br>▪ reflecting a higher average tariff and increased water consumption |
| Core net income ↑37% | ▪ to Pesos 3,328 million (US$69.6 million) from Pesos 2,433 million (US$54.4 million)<br>▪ reflecting a 17% increase in average tariff<br>▪ billed water volume up 11% to 350 million cubic meters resulting to an increase in customers and increase in average daily consumption |
| Core EBITDA ↑48% | ▪ to Pesos 7,162 million (US$149.8 million) from Pesos 4,846 million (US$108.4 million)<br>▪ reflecting a lower increase in cash operating expenses than revenue growth |
| Reported income ↑42% | ▪ to Pesos 2,825 million (US$59.1 million) from Pesos 1,994 million (US$44.6 million) |
| Total billed water volume ↑11% | ▪ to 350 million cubic meters from 315 million cubic meters<br>▪ water connections increased 7% to 814,645<br>▪ average daily consumption for the year increased 5% to 1.25 cubic meters per day<br>▪ a 4% decrease in average non-revenue water |
| Total billed customers ↑7% | ▪ to 814,645 from 762,315 |
| Average non-revenue water ↓4% | ▪ to 60% from 64%<br>▪ reflecting successes in leakage identification and in the redirection of excess water to areas where customers require water |

Maynilad has a program in place to minimize the impact of a reduction in water supply in relation to El Nino, comprising a team of 480 additional engineers and contractors who are working on recovering up to 100 million liters of water per day.

Maynilad's revised capex plan enabled it to secure a six-year income tax holiday commencing in January 2010 from the regulator. It plans to reinvest additional funds from the tax holiday. Maynilad's tariff is adjusted annually against CPI and is reviewed every five years.

It also plans to invest a total of Pesos 32 billion (US$692.6 million) in capital expenditure by 2013 mainly to increase coverage area, to improve water pressure, to provide 24-hour water service and to further reduce non-revenue water. These initiatives include the Putatan Water Treatment Plant and a new pumping station at Villamor which are scheduled to be partially completed by the first half of 2010 and fully operational by latter part of 2010.

**MPTC**, through its 67.1% interest in MNTC and 46.0% interest in Tollways Management Corporation ("TMC"), operates the North Luzon Expressway ("NLEX"), Subic Clark Tarlac Expressway ("SCTEX") and Subic Freeport Expressway operates 187 kilometers of tollroads which comprises 65% of all such tollroads in the Philippines. The concession for NLEX runs until 2037.

MPTC recorded a significant improvement in operational performance which was driven by lower fuel prices, the opening of SCTEX and customer group specific marketing initiatives.

| | |
|---|---|
| Revenues ↑6% | ▪ to Pesos 5,489 million (US$114.8 million) from Pesos 5,198 million (US$116.3 million)<br>▪ reflecting higher traffic volume |
| Core net income ↑24% | ▪ to Pesos 1,220.6 million (US$25.5 million) from Pesos 987 million (US$22.1 million)<br>▪ reflecting increase in traffic volume, improvement in operating efficiencies and cost management initiatives<br>▪ a higher contribution from TMC in line with its 24% increase in core net income |

| | |
|---|---|
| Core EBITDA ↑7% | ▪ to Pesos 2,876 million (US$60.2 million) from Pesos 2,699 million (US$60.4 million)<br>▪ reflecting a lower rate of increase in cash operating expenses than that of revenues as the 3.6% increase in operating costs was primarily related to higher operator's fees, higher share of Philippine National Construction Corporation in revenues and higher repairs and maintenance which was compensated by a 7% decrease in salaries, wages and outside services |
| Reported income ↓26% | ▪ to Pesos 582 million (US$12.2 million) from Pesos 784 million (US$17.5 million)<br>▪ reflecting higher non-recurring and non-cash tax provisions relating to the possible imposition of value added taxes ("VAT") on toll rates |
| Daily traffic volume ↑6% | ▪ to 150,395 average vehicle entries per day from 141,846<br>▪ stimulated by lower fuel prices, the opening of SCTEX and intense marketing initiatives |

In February 2009, MPTC signed a memorandum of understanding with the Philippine National Railways to build the Skyway Connector to connect the NLEX and the South Luzon Expressway. This connector road is expected to drive traffic volumes and reduce journey time across Metro Manila by approximately an hour.

In September 2009, MPTC submitted an unsolicited bid for the SCTEX concession and was the only qualified technical bidder in an auction held in January 2010. MPTC is in negotiation with the Bases Conversion and Development Authority for the concession.

NLEX's expansion option Segment 8.1 (link Mindanao Avenue to NLEX) is expected to open in May 2010. MPTC has started the detailed engineering studies for Segments 9 and 10 which will connect NLEX to the port area at Western Metro Manila and plans to commence construction in 2011.

Growth in traffic volume is expected to continue as car ownership and disposable income increases, the opening of SCTEX increases road connections and local tourism is driven through marketing programs which utilize customer satisfaction campaign findings.

**Meralco**
MPIC completed the acquisition of approximately 13.1% interest in Meralco from the Beneficial Trust Fund of PLDT and Crogan Limited (a wholly-owned subsidiary of First Pacific) and a further approximately 1.4% interest from the open market. As at the end of 2009, MPIC owns an approximately 14.5% interest in Meralco with investment cost of approximately Pesos 24.5 billion (US$520.1 million).

| | |
|---|---|
| Revenues ↓4% | ▪ to Pesos 184,872 million (US$3,866.8 million) from Pesos 191,775 million (US$4,292.2 million)<br>▪ reflecting a fall in generation and transmission rates partly offset by an increase in electricity sales and tariff |
| Core net income ↑1.7 times | ▪ to Pesos 7,003 million (US$146.5 million) from Pesos 2,605 million (US$58.3 million)<br>▪ reflecting a Pesos 0.26 per kilowatt-hour increase in tariff under the PBR implemented from May 2009, the first adjustment since 2003 |
| EBITDA ↑20% | ▪ to Pesos 13,264 million (US$277.4 million) from Pesos 11,021 million (US$246.7 million) |
| EBITDA margin | ▪ to 7.17% from 5.75%<br>▪ the fall in revenue of 4% was compensated by the decrease in expenses of 6% |
| Reported net income ↑1.1 times | ▪ to Pesos 6,005 million (US$125.6 million) from Pesos 2,800 million (US$62.7 million)<br>▪ reflecting the operating performance referred to above and the resolution of transmission charge under recoveries during the year |
| System loss | ▪ to 8.61% from 9.28%, the lowest since 1981<br>▪ impacted by a campaign of deterrence drives and apprehensions and the relocation of metering facilities from pilferage-prone areas |

On 1 March 2010, MPIC's board approved the consolidation of MPIC's entire 14.5% interest in Meralco with Piltel's (a 99.5% PLDT owned subsidiary) 13.7% interest in Meralco to Beacon Electric Asset Holdings, Inc. ("Beacon Electric"). Upon the completion of the consolidation, Beacon Electric will have a 28.2% interest in Meralco and a call option for an additional 6.6% interest in Meralco exercisable during the period from March 15, 2010 to May 15, 2010.

**Healthcare**
MPIC is developing the Philippine's first nationwide premier healthcare chain to deliver improved services in particular in diagnostic, therapeutic and preventive medical services. It is the single largest shareholder of MDI and DDH.

MDI operates and manages the Makati Medical Center ("MMC") which has a 707-bed capacity and a training facility for approximately 900 nursing students. The construction of a new 8-storey out-patient annex building with a 5-floor basement parking facility was inaugurated in February 2009.

DDH is the largest private hospital in Davao City with a 250-bed capacity and is considered the best medical facility in Mindanao. DDH operates a teaching institution Davao Doctors College Inc., which currently has approximately 3,500 students taking courses in nursing, radiologic technology, physical therapy, optometry, hotel and restaurant management and general education. It is in the process of establishing an eye center.

In February 2009, CVHMC, received approval from the Roman Catholic Archbishop of Manila for a 20-year operating contract for a 235-bed CSMC located in Metro Manila. MPIC is committed to invest at least Pesos 750 million (US$16.2 million) by 2019 to upgrade CSMC's medical facilities and equipment and parking facilities to enhance the range and quality of services.

| | |
|---|---|
| Revenues ↑30% | ▪ to Pesos 5,524 million (US$115.5 million) from Pesos 4,251 million (US$95.3 million)<br>▪ a 17% revenue growth at MMC<br>▪ a 2.1 times increase in revenues at CSMC being the first full year of its performance<br>▪ a 12% revenue growth at DDH |
| Core net income ↑56% | ▪ to Pesos 528 million (US$11.0 million) from Pesos 338 million (US$7.6 million)<br>▪ reflecting higher operational efficiency from new equipment, better services and higher bed occupancy and the positive impact for the first full year of consolidation of CSMC<br>▪ MDI's core net income increased to Pesos 384 million (US$8.0 million) from Pesos 218 million (US$4.9 million) for 4.5 months in 2008<br>▪ DDH's core income increased 19% to Pesos 144 million (US$3.0 million) from Pesos 120 million (US$2.7 million) |
| Core EBITDA ↑32% | ▪ to Pesos 1,250 million (US$26.1 million) from Pesos 948 million (US$21.2 million)<br>▪ the first full year of CSMC is included, however, the growth in revenues from the new facilities at MMC did not fully offset the increase in cash operating expenses at that facility |

The healthcare division continues to invest in improving infrastructure, leveraging on its technical and professional expertise to expand services and enhance operational efficiency. The division will continue to evaluate opportunities to expand the healthcare portfolio through the acquisition of additional hospitals in strategic areas in the Philippines.

**Manila North Harbour**
MPIC in partnership with Harbour Centre Port Terminal, Inc. was awarded a 25-year concession to develop, manage and operate the MNH. The estimated investment of Pesos 14.5 billion (US$313.9 million) will be used to modernize and re-arrange the existing ports, and to expand the operating area to 70 hectares from 52 hectares. More than 1,000 workers at the North Harbour will be rehired and the project is expected to create an additional 20,000 jobs over the concession period.

**2010 Outlook**

MPIC will report a full year of contributions from Meralco and a cash dividend from Maynilad. Its portfolio of business will be enhanced with continued expansion of its tollroads, an investment in the fourth hospital, and redevelopment of the North Harbour in Metro Manila.

**Reconciliation of reported results between MPIC and First Pacific**

MPIC's operations are principally denominated in peso, which averaged Pesos 47.81 (2008: 44.68) 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. dollars. Philippine GAAP and Hong Kong GAAP are largely based on IFRSs, however, certain adjustments need to be made to MPIC's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

| Peso millions | **2009** | 2008 |
|---|---|---|
| Net income under Philippine GAAP | **2,300** | 526 |
| Differing accounting and presentational treatments(i) | **(118)** | (632) |
| Adjusted net income/(loss) under Hong Kong GAAP | **2,182** | (106) |
| Foreign exchange and derivative (gains)/losses(ii) | **(135)** | 453 |
| MPIC's net income as reported by First Pacific | **2,047** | 347 |
| US$ millions | | |
| Net income at prevailing average rates for 2009: Pesos 47.81 and 2008: Pesos 44.68 | **42.8** | 7.8 |
| Contribution to First Pacific Group profit, at an average shareholding of 2009: 77.0% and 2008: 91.1% | **33.0** | 7.4 |

*(i) Differences in accounting treatment under Philippine GAAP, compared with Hong Kong GAAP, and other presentational differences. The adjustment principally relates to reclassification of non-recurring items. Non-recurring items represent certain items, through occurrence or size, are not considered usual operating items which are reallocated and presented separately. Adjustment for 2009 of Pesos 0.1 billion principally represents reversal of provision for Maynilad's deferred credits following a resolution of new tariff rates with the regulator. Adjustment for 2008 of Pesos 0.6 billion principally represents a gain arising from an increase in interest in Maynilad of Pesos 0.4 billion and a recognition of the excess of the fair value of the acquired interest in MDI over the acquisition cost paid for it as income of Pesos 0.2 billion.*

*(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

During 2009, Indofood recorded its fifth consecutive year of improved performance. This performance results from the distribution of a wide range of food products, many of which are market leaders, throughout Indonesia through its four complementary strategic business groups: Consumer Branded Products, Bogasari, Agribusiness and Distribution.

Indofood's contribution to the Group increased 2% to US$89.2 million (2008: US$87.6 million) principally reflecting the stronger performance of the Consumer Branded Products group, partially offset by the lower average selling prices of crude palm oil ("CPO") and flour, and higher net interest expenses.

| | |
|---|---|
| Consolidated net sales ↓4% | ▪ to Rupiah 37.1 trillion (US$3,588.7 million) from Rupiah 38.8 trillion (US$3,992.5 million)<br>▪ reflecting the lower sales in the Agribusiness and Bogasari groups resulting from lower average CPO and flour prices<br>▪ a full year's sales contribution of Rupiah 3,136 billion (US$303.0 million) from the dairy business |
| Gross profit margin | ▪ to 27.3% from 23.1%<br>▪ reflecting lower raw material costs |
| Consolidated operating expenses ↑10% | ▪ to Rupiah 5,118 billion (US$494.5 million) from Rupiah 4,635 billion (US$477.8 million)<br>▪ due to higher variable selling expenses in conjunction with sales volume increases<br>▪ higher employee related expenses, partly due to the consolidation of Indolakto |
| EBIT margin | ▪ to 13.5% from 11.2%<br>▪ resulting from stronger operation and lower input costs |
| Core net income ↑ 19% | ▪ to Rupiah 1,727 billion (US$166.9 million) from Rupiah 1,449 billion (US$149.4 million)<br>▪ reflecting higher operating income |
| Net gearing | ▪ to 0.83 times from 1.09 times after taking into account the equity of minority interest in subsidiaries |

**Refinancing and Debt Profile**
In June, Indofood issued Rupiah 1.6 trillion (US$171 million) 5-year Rupiah bond to refinance a Rupiah 1.0 trillion (US$106 million) bond due in July 2009 and other short-term borrowings.

In November, IndoAgri's subsidiary, SIMP, issued Rupiah 730 billion (US$78 million) 5-year Rupiah bond principally to refinance its short-term borrowings.

As at the end of 2009, Indofood recorded gross debt of Rupiah 17,276 billion (US$1,837.8 million) (2008: Rupiah 18,579 billion (US$1,306.5 million)) of which Rupiah 6,718 billion (US$ 714.7 million) is to be repaid/refinanced by the end of 2010. The remaining Rupiah 10,558 billion (US$1,123.1 million) matures between 2011 and 2018.

**Resale of Lonsum's Treasury Stock**
During the year, Lonsum resold to third parties its entire treasury stock of 24.0 million shares, equivalent to approximately 1.8% of its issued capital for a consideration of Rupiah 188 billion (US$18.1 million).

**Consumer Branded Products ("CBP")**
CBP group comprises Noodles, Dairy, Food Seasonings, Snack Foods and Nutrition and Special Foods. Supported by Indofood's competitiveness, strong brand equity and distribution network, CBP group reported significantly improved performance in 2009.

In September 2009, Indofood commenced the restructuring of the CBP group by consolidating all consumer branded product subsidiaries into a wholly-owned subsidiary, PT Indofood CBP Sukses Makmur ("ICBP"). The internal restructuring was completed on 17 March 2010.

**Indofood's Noodles** division is one of the world's largest instant noodles producers. It has 16 production plants in Indonesia with combined annual production capacity of over 15 billion packs. *Indomie*, *Supermi*, *Sarimi*, *Sakura*, *Pop Mie*, *PopBihun* and *Mi Telur Cap 3 Ayam* remained popular brands. Its strategy of focusing on higher value added noodles products complemented performance. Sales volume recovered in 2009 as consumer confidence index increased and purchasing power recovered.

Indofood completed the acquisition of PT Indolakto ("Indolakto") in December 2008 which enlarged Indofood's CBP portfolio. Indolakto is one of the largest **dairy** products manufacturer in Indonesia with a flagship brand *Indomilk*, producing sweetened condensed milk, ultra high temperature milk, sterilized bottled milk, pasteurized liquid milk and powdered milk, ice cream and butter. Consumption per capita for dairy products in Indonesia is around 9 liters per year, however, as consumer awareness of the nutritional value of dairy products increases, it is expected so will growth of these products. During 2009, this division recorded a strong volume growth, particularly in the liquid category. To meet the increasing demand, Indolakto plans to build a new factory with expected completion in 2011.

**Food Seasonings** division manufactures a wide range of culinary products, among which instant seasonings and chili sauce are most popular. The division also produces soy sauce, tomato sauce and condiments. Its *Indofood*, *Piring Lombok*, *Racik* and *Kreasiip* brand products are marketed by Nestlé Indofood Citarasa Indonesia which is a joint venture company between Indofood and Nestlé. Sales volume improved resulting from the success of *bumbu Racik*, higher chili and syrup sales volume. In addition, the division also manufactures and markets syrup. In the last few years syrup sales volume has grown as a result of strengthening brand equity and visibility.

**Snack Foods** division maintained its leadership position through its leading brands *Chitato* and *Lays* (potato chips), and *Qtela* (cassava chips, a traditional style snack food), and the introduction of new products and packaging. Sales volume increased contributed by the high growth in *Qtela* and potato chips, stimulated by focused marketing program, enhanced product visibility in the modern and traditional outlets as well as increased distribution penetration in traditional outlets.

**Nutrition and Special Foods** division produces food for babies, children, and milk for expectant and lactating mothers under two brands – *Promina* caters to the higher-income groups, while *SUN* is for the lower-middle segment. In 2009, this division focused on strengthening brand image, increasing brand awareness and offering nutrition-related educational programs. Sales volume increased driven by improved product visibility and enhanced sales team in retail outlets, partly offset by lower demand from institutional customers.

| | |
|---|---|
| Sales ↑34% | ▪ to Rupiah 16,533 billion (US$1,597.6 million) from Rupiah 12,297 billion (US$1,267.7 million)<br>▪ accounted for 43.4% (2008: 30.8%) of Indofood's consolidated sales<br>▪ reflecting higher sales volume across the divisions driven by enhanced marketing strategy and higher average selling prices, and higher domestic demand stimulated by lower inflation<br>▪ the consolidation of Indolakto which was acquired in December 2008 |
| Sales volume | ▪ Noodles up 2% to 11.0 billion packs from 10.8 billion packs<br>▪ Dairy at 168.0 thousand tons and 89.6 million liters<br>▪ Food Seasonings up 7% to 63.6 thousand tons from 59.4 thousand tons<br>▪ Snack Foods increased 20% to 13.7 thousand tons from 11.4 thousand tons<br>▪ Nutrition and Special Foods up 8% to 12.5 thousand tons from 11.6 thousand tons |
| EBIT margin | ▪ to 10.5% from 4.2%<br>▪ reflecting margin improvement across most of the divisions<br>▪ Noodles' margin significantly improved to 11.8% from 4.1%<br>▪ Dairy's margin maintained at 8.2% despite considerably higher input costs, particularly sugar and skimmed milk powder<br>▪ Food Seasonings' margin declined to 2.2% from 2.8%<br>▪ Snack Foods' margin improved to 6.4% from 4.3% reflecting higher average selling price, sales volume and product mix<br>▪ Nutrition and Special Foods' margin improved to 9.1% from 7.6% reflecting higher sales volume and improved efficiency |

The CBP group will continue cost efficiency measures by to ensure its competitiveness. The rural development program remains a key force for further increasing Indofood's products penetration in rural areas. Demand in 2010 is expected to remain strong as the economy recovers and the Consumer Confidence Index remains strong.

**Bogasari** is the largest integrated flour miller in Indonesia. Its flour mills located in Jakarta and Surabaya have combined annual effective milling capacity of 3.2 million tons of wheat flour. It also manufactures pasta and biscuits for both domestic and international markets. Its six vessels are mainly for transporting wheat supplies from Australia, United States and Canada to Indonesia.

In 2009, good harvests increased global wheat stocks to approximately 190 thousand tons, the lower wheat flour prices stimulated demand from industrial and small- and medium-enterprise ("SME") sectors. Despite the Indonesian Government reinstated taxes and quality requirements on imported wheat, new players emerged to increase market capacity by 20%. Bogasari supported by its well-established brand equity (*Segitiga Biru, Cakra Kembar and La Fonte*), customer loyalty and extensive distribution network, was able to maintain its market leadership.

| | |
|---|---|
| Sales ↓8% | ▪ to Rupiah 13.8 trillion (US$1,330.6 million) from Rupiah 14.9 trillion (US$1,533.2 million)<br>▪ accounted for 28.3% (2008: 30.1%) of Indofood's consolidated sales<br>▪ reflecting lower average selling prices in response to lower wheat costs and market competition |
| Sales volume of food flour ↑8% | ▪ to 2.24 million tons from 2.07 million tons<br>▪ reflecting higher demand resulting in line with the economic recovery |
| Sales volume of pasta ↑0.1% | ▪ to 26.3 thousand tons from 26.2 thousand tons<br>▪ reflecting flat for both domestic and overseas demand |
| EBIT margin | ▪ to 9.9% from 8.3%<br>▪ resulting from higher sales volume of food flour<br>▪ time lag between decline in raw material costs and adjustment to selling prices |

Flour consumption per capita in Indonesia remains low by international standards at around 17 kilograms per year. The younger generation's preference for Western fast food will stimulate industry growth. New players are expected to enter this attractive market during 2010. However, Bogasari market leadership will be strengthened through a combination of further improvements to product quality and consumer group-specific marketing programs, while implementing pricing strategies to balance market share and profitability.

**Agribusiness**
The Agribusiness Group consists of three divisions: Plantations; Cooking Oils and Fats and Commodities, which operate through Indofood's 58.2% owned Singapore listed subsidiary Indofood Agri Resources Ltd ("IndoAgri") and IndoAgri's 58.8% owned Indonesia-listed subsidiary, PT PP London Sumatra Indonesia Tbk ("Lonsum"). The Agribusiness Group is a market leader in Indonesia's branded cooking oil and margarine segment, and is one of the lowest cost palm oil producers.

Agribusiness group is a vertically integrated business producing a number of leading brands derived from palm oil. Its operations cover the whole value chain from research and development, oil palm seed breeding and cultivation to milling, refining, branding and marketing of cooking oil, margarine, shortening and other palm oil derivative products. It also operates sugar cane, rubber, coconut, cocoa and tea plantations. With the target completion of a sugar refinery in the second half of 2010, it owns processing plants for these crops.

**Plantations** IndoAgri and Lonsum have a combined plantation land bank of 549,287 hectares of which 227,721 hectares are planted. Oil palm is the dominant crop, of which 42% of oil palms are below seven years old (thus not at peak yields). In 2009, the oil palm's new planting was 11,773 hectares and the CPO yield remained at 4.5 tonnes per hectare. Sugar cane's planted area doubled to 8,672 hectares. The division operates 20 palm oil mills with a total annual processing capacity of 4.5 million tonnes of fresh fruit bunches ("FFB"). It also achieved RSPO certification for its North Sumatra oil palm estates and mills in 2009, producing 170,000 tonnes of sustainable CPO. A sugar mill is currently under construction in South Sumatra and is expected to commence operations in the second half of 2010.

**Cooking Oils and Fats** This division manufactures cooking oils and fats and markets products under various brands for both export and domestic consumption. IndoAgri's main premium branded products, *Bimoli* and *Simas Palmia*, have leading market shares in the branded cooking oils and margarine segment in Indonesia. Approximately 75% of margarine and shortening sales were in industrial packs supplied to domestic bakeries, snack and biscuit manufacturers. It has refinery capacity of 1.0 million tonnes per annum and approximately 77% of this division's refinery needs are sourced from the plantation division's CPO production.

**Commodity** division mainly produces crude coconut oil (CNO) and derivative products, most of which are exported to the United States, Europe, China and South Korea. The division operates three copra-crushing plants with a combined annual production capacity of 270,000 tonnes.

| | |
|---|---|
| Sales ↓20% | ▪ to Rupiah 12,034 billion (US$1,162.8 million) from Rupiah 15,016 billion (US$1,548.0 million)<br>▪ accounted for 20.5% (2008: 26.9%) of Indofood's consolidated sales<br>▪ Plantations, Cooking Oils and Fats and Commodities accounted for 50%, 43% and 7%, respectively, of the total sales of Agribusiness, and the sales after inter-segment elimination among these three divisions amounts to Rupiah 9,040 billion (US$873.5 million)<br>▪ mainly due to the decline in the average selling prices of plantation crops and edible oil products as a result of the global economic crisis and lower cooking oil sales volume<br>▪ partially offset by higher sales volume of CPO, palm kernel and margarine |
| EBIT margin | ▪ to 15.0% from 17.6%<br>▪ reflecting lower selling and distribution costs on lower export taxes and foreign currency gains<br>▪ Plantations declined to 29.4% from 34.9% reflecting lower average selling prices of plantation crops<br>▪ Cooking Oils and Fats declined to 1.5% from 3.2% reflecting lower average selling prices and lower sales volume of branded cooking oils, this was partially offset by higher sales volume of margarine<br>▪ Commodity declined to negative 5.7% from positive 3.3% reflecting lower average selling prices and unhedged sales denominated in US$ as rupiah depreciated against U.S. dollar |
| Sales volume of CPO ↑4% | ▪ increased to 759 thousand tonnes from 730 thousand tonnes<br>▪ reflecting higher production yield from young plantation profile with average age of 11 years |
| Sales volume of Branded cooking oils ↓9% | ▪ reduced to 387 thousand tonnes from 424 thousand tonnes<br>▪ reduction in domestic demand as Indonesian Government reinstated a 10% VAT on branded cooking oils, causing some switching to unbranded cooking oils |
| Sales volume of margarine ↑8% | ▪ increased to 173 thousand tonnes from 161 thousand tonnes<br>▪ resulting from stronger demand for industrial margarine products |
| Sales volume of coconut oil ↓24% | ▪ reduced to 82 thousand tonnes from 108 thousand tonnes, due to reduced supply of copra |

Palm oil remains a low-cost vegetable oil given its high production yield. Prices for CPO are expected to remain volatile during 2010 due to the uncertainties in global production and consumption rates, and the pace of the global economic recovery. However, the demand for palm oil is expected to remain strong in 2010, especially from the emerging countries; and increasing demand for bio-diesel, particularly in European countries.

Agribusiness group continues to focus on expanding its palm oil and sugar plantations through additional new planting, investing in research and development, oil palm seed breeding and strengthening brand equity of its edible oil products in order to further improving its competitive advantage.

It plans to complete the construction of a palm oil refinery with an annual capacity of 420,000 tonnes in Jakarta and a sugar cane refinery in South Sumatra with a capacity of 8,000 tonnes of cane per day in the second half of 2010.

**Distribution**

The Distribution Group is a major component of Indofood's Total Food Solutions chain of operations as it has the most extensive distribution network of stock points in Indonesia. It distributes the majority of Indofood's consumer products and third-party products across the archipelago. Indofood increased its products' market penetration and service standard through its stock points located in areas with a high density of retail outlets which ensure product availability. To further improve product visibility and increase availability, the group engaged merchandisers and canvassers, in conjunction with joint marketing efforts and promotions with the principals. The implementation of a new IT system since 2008 has complemented the distribution strength.

During 2009, the Distribution division focused on increasing distribution in suburban and rural areas, and increased outlet coverage by 10%.

| | |
|---|---|
| Sales ↓39% | ▪ to Rupiah 2,871 billion (US$277.4 million) from Rupiah 4,742 billion (US$488.9 million)<br>▪ accounted for 7.8% (2008: 12.2%) of Indofood's consolidated sales<br>▪ reflecting sales of Dairy products is now booked in the CBP division, it accounted for approximately 80% of this division's sales for 2008 |
| EBIT margin | ▪ to 2.5% from 1.1%<br>▪ reflecting lower fuel costs |

The division will further leverage its distribution system for increasing penetration in rural areas. Internal controls will continue to ensure higher cost efficiency. Its sales force will enhance communication with the retail outlets to better understand and respond to customers' needs, while its team of merchandisers will ensure product visibility in retail outlets.

**2010 Outlook**

The Indonesian economy is expected to grow at a healthy pace, and the domestic demand for Indofood's products are expected to be strong as inflation remains at a manageable level. Indofood will focus on maximizing synergies within the group through the consolidation of the CBP business, enhancement of marketing strategies, increasing product visibility and penetration in rural areas, as well as further enhancement of product innovation capabilities and expansion of product categories.

On the Agribusiness side, the company is expected to commence sugar production in the second half of 2010 in conjunction with the completion of its South Sumatra sugar mill.

With three new entrants to the flour market in Indonesia, the competitive environment for Bogasari will be tough in 2010. It will continue to invest in brand equity and strengthen its customer relationships, while improving product quality and increasing efficiency in order to sustain its competitive advantage.

**Reconciliation of reported results between Indofood and First Pacific**

Indofood's operations are principally denominated in rupiah, which averaged Rupiah 10,349 (2008: 9,700) 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. dollars. 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 | **2009** | 2008 |
|---|---|---|
| Net income under Indonesian GAAP | **2,076** | 1,034 |
| Differing accounting and presentational treatments(i) | | |
| - Reclassification of non-recurring items | **145** | (91) |
| - Gain/(loss) on changes in fair value of plantations | **206** | (310) |
| - Foreign exchange accounting | **54** | 54 |
| - Others | **63** | 164 |
| Adjusted net income under Hong Kong GAAP | **2,544** | 851 |
| Foreign exchange and derivative (gains)/losses(ii) | **(494)** | 506 |
| (Gain)/loss on changes in fair value of plantations(ii) | **(206)** | 310 |
| Indofood's net income as reported by First Pacific | **1,844** | 1,667 |
| US$ millions | | |
| Net income at prevailing average rates for 2009: Rupiah 10,349 and 2008: Rupiah 9,700 | **178.2** | 171.9 |
| Contribution to First Pacific Group profit, at an average shareholding of 2009: 50.1% and 2008: 50.9% | **89.2** | 87.6 |

(i) *Differences in accounting treatment under Indonesian GAAP, compared with Hong Kong GAAP, and other presentational differences. 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 2009 of Rupiah 145 billion represents Rupiah 63 billion of taxes on a contemplated spin off of the Consumer Branded Products businesses, Rupiah 53 billion of manpower rightsizing costs and Rupiah 29 billion impairment provision for various assets. Adjustment for 2008 of Rupiah 91 billion principally represents Rupiah 152 billion of gains from a reduction in deferred tax liabilities, partly offset by Rupiah 69 billion of manpower rightsizing costs.*
- *Gain/loss on changes in fair value of plantations: Under Indonesian GAAP, Indofood measures its plantations (biological assets) on a 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 have 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) and gain/loss on changes in fair value of plantations are excluded and presented separately.*

## PHILEX

Philex's contribution to the Group amounted to US$7.7 million compared to the Group's share of its one-month loss of US$1.6 million for 2008.

First Pacific Group made its initial investment in mining with the acquisition of a 20% economic interest in Philex in November 2008, and subsequently increased to 31.5% as at the end of 2009. In addition, First Pacific's Philippine affiliate, Two Rivers, held a 9.2% interest in Philex as at the end of 2009 and increased this to 15.1% in January 2010.

In terms of mineral endowment, the Philippines is ranked the third for gold and the fourth for copper in the world, with approximately 1.4% of its 9 million hectares of mineral land covered by mining permits. Philex is currently the largest mining company operating a gold-copper mine in the Philippines. It has been operating the **Padcal mine** since 1958 which is the first underground block cave operation in the Far East. Philex's copper concentrate is shipped to the smelter of Pan Pacific Copper Company Limited in Saganoseki, Japan. The Padcal mine has a work force of 2,137, and its operating life has been extended to 2017 from 2014 based on the proved reserves of 74 million tonnes reported as of June 30, 2009.

Total ore milled in 2009 amounted to 8.2 million tonnes at an average grade of 0.567 gram of gold and 0.228% copper per tonne, producing 119 thousand ounces of gold and 34 million pounds of copper which comprises approximately 56% and 41%, respectively, of mining revenue – all of which are denominated in U.S. dollars. For the year, the average realized prices for gold was US$946 per ounce (2008: US$788 per ounce). Copper price was adversely impacted by the global economic downturn and remained low at US$2.24 per pound (2008: US$2.22 per pound).

As of 31 December 2009, Philex's cash was US$62.4 million and there were no outstanding bank loans.

| | |
|---|---|
| Net income attributable to owners of the parent company ↓2.2% | • to Pesos 2,830 million (US$59.2 million) from Pesos 2,893 million (US$64.7 million)<br>• reflecting total ore milled of 8.2 million tonnes<br>• production volume of gold and copper declined to 119 thousand ounces from 145 thousand ounces and to 34 million pounds from 41 million pounds, respectively<br>• copper revenue declined 12.1% to Pesos 3,742 million (US$78.3 million) from Pesos 4,259 million (US$95.3 million) and gold revenue declined 4.8% to Pesos 5,108 million (US$106.8 million) from Pesos 5,364 million (US$120.0 million)<br>• recognition of Pesos 766 million (US$16.0 million) gain on negative goodwill arising on the acquisition of 50% interest in Boyongan<br>• the expiration of the income tax holiday for Padcal mine |
| Operating costs and expenses ↑11% | • to Pesos 6,690 million (US$139.9 million) from Pesos 6,031 million (US$135.0 million)<br>• reflecting a 10% increase in production costs due to higher repair and maintenance costs for underground machineries and equipment<br>• a 56% rise in general and administrative expenses mainly due to the consolidation of Forum Energy Plc starting December 2008 and higher expense for stock-based compensation |
| Capital expenditure (including exploration costs) ↑67% | • to Pesos 2,322 million (US$48.6 million) from Pesos 1,394 million (US$31.2 million) due to increased drilling activities for the Silangan Project, mine development and acquisition of new machineries and equipment for the Padcal mine |
| Net interest income ↓20% | • to Pesos 80 million (US$1.7 million) from Pesos 100 million (US$2.2 million)<br>• resulting from lower investment of free funds in short-term deposits |
| Net foreign exchange loss/gain | • to Pesos 69 million (US$1.4 million) loss from Pesos 238 million (US$5.3 million) gain<br>• reflecting principally the peso-to-dollar closing rate appreciated by 3% to Pesos 46.2 for the US$ denominated net monetary assets |

**Investments**

In February 2009, Philex consolidated its interest in the Silangan Project by purchasing the remaining 50% equity interest held by Anglo American Exploration BV and Anglo American Exploration (Philippines) Inc. for a consideration of US$55 million.

In March 2009, Philex's acquisition of 14 million shares in Pitkin Petroleum Plc ("Pitkin") for US$14 million increased Philex's interest in Pitkin to 21%.

In July 2009, Philex consolidated full ownership in Philex Petroleum Corporation ("PPC") by acquiring the 49% interest of Anatolian Property BV in PPC for a consideration of US$3.6 million. PPC's principal investment is related to petroenergy through its interest in Pitkin, Forum Energy Plc ("FEP") and Petroenergy Resources Corporation.

Philex's wholly-owned subsidiary PPC acquired an additional 3.7% and 2.4% interest in FEP, a UK-based oil and gas exploration company, in November 2009 and February 2010, respectively. The transaction increased Philex Group's interest in FEP to 64.98%.

**Silangan Project**
Located in Surogao del Norte, the Northern of Mindanao in the Philippines, this project combines the development of Boyongan and Bayugo deposits which comprise gold and copper metals.

Independent Resources Estimations ("IRES") of South Africa completed a pre-feasibility study on Boyongan in October 2008 and concluded that based on the assumptions used in their report, the Boyongan deposit is technically and financially feasible, with proven mineral reserves of 65.8 million tonnes containing 1.39 grams of gold per tonne and 0.87% copper.

The preliminary mineral resource estimates for Bayugo were completed in November 2009. IRES's technical report indicated mineral resources of 86 million tonnes with 0.88% of copper and 0.73 gram of gold per tonne. Drilling continues for the Silangan Project to define further the mineralization limits and to upgrade the indicated mineral resource of Bayugo to measured resource. .

Listed below is the comparison between Padcal Mine and Silangan Project (based on currently ongoing study on the Silangan Project):

| | | Silangan Project | | |
|---|---|---|---|---|
| | Padcal (as of December 31, 2009) | Boyongan (as of October 2008) | Bayugo (as of November 2009) | |
| | | | Indicated | Inferred |
| Resources (million tonnes) | 156 | 105* | 86 | 33 |
| Gold (gram/tonne) | 0.50 | 0.98 | 0.73 | 0.63 |
| Copper (%) | 0.24 | 0.80 | 0.88 | 0.75 |
| Proved Reserves (million tonnes) | 69 | 66 | Drilling ongoing | |
| Gold (gram/tonne) | 0.44 | 1.39 | | |
| Copper (%) | 0.22 | 0.87 | | |

** Measured and indicated*

**Hedging Positions**
As of 31 December 2009, Philex has outstanding contracts for purchased gold put options totaling 73,500 ounces at an average strike price of US$812.84 per ounce for period from January 2010 with maturity up to December 2010.

The marked-to-market gain from foreign currency hedging contract contributed Pesos 470 million (US$9.8 million) to the 2009 earnings (a reversal of the marked-to-market loss recognized in 2008), which contract expired in September 2009.

Philex's unrealized marked-to-market gains or losses on gold and copper options contracts are non-cash in nature.

**Environment Management**
Approximately 2,090 hectares in the vicinity of the Padcal Mine have been reforested with over 7 million seedlings of various tree species. The Philex-Padcal Environmental Management System has been qualified with ISO 14001 Certification for seven consecutive years. Since 1983, Philex and its subsidiary companies have received various awards for its environmental achievements.

**Community Development**
Philex's extensive Social Development and Management Program aims to improve the quality of life of the people affected by Philex's mining operations. Programs on health, education, livelihood, infrastructure development, information and education campaigns are being undertaken in partnership with the local communities, local government units, government agencies and the academy. Philex has received various awards on social development from the Department of Labor and Employment, Department of Health, Employers Confederation of the Philippines, Department of Environment & Natural Resources and Department of Interior and Local Government since 1991, and

was named one of the 50 Model Communities in the World by the "We the Peoples' Organization" of the United Nations in 1995.

**2010 Outlook**

The current uncertain global financial environment remains a key factor on the stability of metal prices. The extension of the operating life of Padcal Mine to 2017 will continue to generate earnings whilst the development of the Silangan Project and the energy opportunities are pursued.

The Department of Energy has approved the conversion of Forum Energy's Geophysical Survey and Exploration Contract - the GSEC101 - in January 2010 into Service Contract 72 to explore the Sampaguita natural gas deposit in an area of 8,800 square kilometers west offshore of Palawan.

The Zamboanga coal mine of Brixton Energy & Mining Corporation is projected to start its commercial operation by the third quarter of 2010.

**Reconciliation of reported results between Philex and First Pacific**

Philex's operations are principally denominated in peso, which averaged Pesos 47.81 (For the month of December 2008: Pesos 48.11) 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. dollars. Philippine GAAP and Hong Kong GAAP are largely based on IFRSs, however, certain adjustments need to be made to Philex's reported peso results to ensure full compliance with Hong Kong GAAP. An analysis of these adjustments follows.

| Peso millions | **2009** | For the month of December 2008 |
|---|---|---|
| Net income/(loss) under Philippine GAAP | **2,830** | (118) |
| Differing accounting and presentational treatments(i) | | |
| - Reclassification of non-recurring items | **(703)** | - |
| - Depreciation of revaluation increment for assets | **(636)** | (65) |
| - Revenue recognition regarding sale of mine products | **59** | (46) |
| - Others | **(283)** | 12 |
| Adjusted net income/(loss) under Hong Kong GAAP | **1,267** | (217) |
| Foreign exchange and derivative losses/(gains)(ii) | **164** | (169) |
| Philex's net income/(loss) as reported by First Pacific | **1,431** | (386) |
| US$ millions | | |
| Net income/(loss) at prevailing average rates for 2009: Pesos 47.81 and December 2008: Pesos 48.11 | **29.9** | (8.0) |
| Contribution to First Pacific Group (First Pacific's share of loss), at an average shareholding of 2009: 25.7% and December 2008: 20.1% | **7.7** | (1.6) |

*(i) Differences in accounting treatments under Philippine GAAP, compared with Hong Kong GAAP, and other presentational differences. 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 2009 of Pesos 703 million principally represents a recognition of Pesos 766 million excess of the fair value over its acquisition cost as income in respect of Philex's acquisition of an additional 50% interest in the Silangan Project.*
- *Depreciation of revaluation increment of assets: A fair value assessment was performed at the date of acquisition of Philex and certain revaluation increment adjustments have been made to property, plant and equipment. The adjustment relates to the recognition of additional depreciation based on the revalued fair value of property, plant and equipment.*
- *Revenue recognition regarding sale of mine products: Philex recognizes revenue based on the production of mine products. HKAS 18 "Revenue" requires the recognition of revenue based on the satisfaction of certain conditions, which includes the transfer of significant risks and rewards of ownership of the products to the buyers and the absence of continuing managerial involvement to the degree usually associated with ownership and effective control over the products sold.*
- *Others: The adjustment principally relates to the accrual of withholding tax on Philex's net income in accordance with the requirements of HKAS 12 "Income Taxes".*

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

## REVIEW OF 2009 GOALS

**First Pacific**
**Goal:** Enhance the profitability of operating companies, in particular continue to improve the profitability of MPIC and of PLDT
**Achievement:** Achieved. Recurring profit increased 20% to US$286.6 million comprising a significantly improved performance by MPIC, increased contribution from Philex, lower Head Office's option costs and interest expenses, partially offset by a lower contribution from PLDT as its strong local currency performance have been impacted negatively on translation into U.S. dollars by the depreciation of the average peso exchange rate.

**Goal:** Manage the projected profitability of Indofood given the downturn in the CPO prices which will impact the profitability of Agribusiness
**Achievement:** Substantially achieved. Indofood's portfolio of business has compensated for the Agribusiness reduction, particularly the Consumer Branded Products division – sales increasing 34% to Rupiah 16,533 billion (US$1,597.6 million) and EBIT margin improving to 10.5% from 4.2%. Indofood's consolidated net sales declined 4% to Rupiah 37.1 trillion (US$3,588.7 million) despite a 20% decline by Agribusiness to Rupiah 12,034 billion (US$1,162.8 million) due to lower CPO prices.

**Goal:** Continue to evaluate complementary investment opportunities in telecoms, infrastructure, consumer products and natural resources in the emerging markets of Asia
**Achievement:** Achieved. First Pacific Group invested approximately US$1.3 billion in 2009 in its core business sectors. First Pacific increased investment in Philex to 31.5% from 20.1%. First Pacific's Philippine affiliate Two Rivers acquired 9.2% in Philex. Philex acquired the remaining 50% equity interest in Silangan Project, and increased its stake in Pitkin Petroleum and Forum Energy to 21% and 65%, respectively. MPIC and Piltel acquired a 14.5% and 20% interest in Meralco, respectively.

**Goal:** Manage capital within the Group's financial resources and its overall investment plans to enhance shareholder returns
**Achievement:** Achieved. First Pacific raised US$282 million by way of rights issue for funding additional complementary investments. MPIC also raised US$300 million through a new share placement to support expansion. First Pacific Board recommended a final dividend of HK8.00 cents (U.S. 1.03 cents) per share (2008: HK6.00 cents (U.S. 0.77 cent), bringing total regular dividends (including an interim dividend of HK4.00 cents (U.S. 0.51 cent) per ordinary share) for the full year to HK12.00 cents (U.S. 1.54 cents) per share (2008: HK9.00 cents (U.S. 1.15 cent)), an increase of 33% and representing a payout of approximately 20% payout of the recurring profit.

**PLDT**
**Goal:** Sustain wireless and broadband growth momentum
**Achievement:** Achieved. Cellular subscriber base of Smart grew 17% year-on-year to 41.3 million. Total broadband subscribers – DSL fixed and wireless - grew 62% to 1.6 million. PLDT Group consolidated service revenues increased 2% to Pesos 145.6 billion (US$3,046.7 million) and consolidated reported net income is up 15% to Pesos 39.8 billion (US$832.5 million) and core net income increased by 8% to Pesos 41.1 billion (US$859.7 million).

**Goal:** Manage transformation to next generation network
**Achievement:** Ongoing. The transformation of PLDT's fixed line network to the all-IP next generation network (NGN) from the traditional circuit-switched network continues, involving both internal and outside plant facilities, as well as alignment of internal processes and human resources-related initiatives. A total of Pesos 4.2 billion (US$87.8 million) of capex was used for NGN and data network which accounted for 15% of PLDT Group's capex for 2009. The full migration to NGN is expected by 2012.

**Goal:** Achieve improved operating results from ePLDT
**Achievement:** Achieved. Service revenues increased 5% to Pesos 10.9 billion (US$228.0 million), which accounted for 8% of PLDT's consolidated revenues. EBITDA margin improved to 12% from 10% with impact from the 7% depreciation of the peso/US$ average exchange rate on ePLDT's dollar revenues which was partly offset by a 1% increase in cash operating expenses.

**Goal:** Conclude Piltel's proposed acquisition of a 20% interest in Manila Electric Company ("Meralco")
**Achievement:** Achieved. The acquisition was completed on 14 July 2009 when Piltel paid Pesos 20.1 billion (US$420.4 million) for an approximately 20% stake in Meralco. Three nominees from the group were elected to Meralco's board at the Meralco Annual General Meeting held on 26 May 2009. The PLDT Group nominated Chief Finance Officer of Meralco assumed the position on 1 July 2009.

On 1 March 2010, Piltel announced that it has executed an Omnibus Agreement with Metro Pacific Investments Corporation to consolidate their shareholdings in Meralco to Beacon Electric Asset Holdings, Inc.

**MPIC**
**Goal:** Conclude the proposed acquisition of a 10.17% interest in Manila Electric Company ("Meralco") and play a key role in improving the financial performance of Meralco
**Achievement:** Achieved. As at the end of 2009, MPIC owns approximately 14.5% interest in Meralco with investment cost of approximately Pesos 24.5 billion (US$520.1 million). Meralco's reported net income for the year ended 31 December 2009 was approximately Pesos 6,005 million (US$125.6 million), a 114% increase over the previous year.

**Goal:** Further enhance profitability of Maynilad and Metro Pacific Tollways Corporation ("MPTC") through capital expenditure and marketing initiatives
**Achievement:** Achieved. Maynilad and MPTC's core income increased 37% to Pesos 3,328 million (US$69.6 million) and 24% to Pesos 1,220.6 million (US$25.5 million), respectively. Maynilad's billed water volume increased 11% to 350 million cubic meters. MPTC's average daily traffic volume increased 6% amounting to average vehicle entries per day of 150,395.

**Goal:** Expand tollroad portfolio principally through the NLEX expansion options and make further strategic acquisitions as opportunities arise
**Achievement:** Achieved. NLEX's expansion option Segment 8.1 commenced construction (link Mindanao Avenue to NLEX) and is expected to open in May 2010. MPTC has started the detailed engineering studies for Segments 9 and 10 which will connect NLEX to the port area at Western Metro Manila and plans to commence construction in 2011. In February 2009, MPTC signed a memorandum of understanding with the Philippine National Railways to build the Skyway Connector to connect the NLEX and the South Luzon Expressway. In September 2009, MPTC submitted an unsolicited bid for the SCTEX concession and was the only qualified technical bidder in an auction held in January 2010. MPTC is in negotiation with the Bases Conversion and Development Authority for the concession.

**Goal:** Expand healthcare portfolio through organic growth and acquisition
**Achievement:** Achieved. Healthcare group's core income up 47% to Pesos 528 million (US$11.0 million) reflecting higher operational efficiency from new equipment, better services and higher bed occupancy and the positive impact for the first time of the operating contract of the Cardinal Santos Medical Center. During 2009, MPIC increased its interest in Medical Doctors Inc. ("MDI") to 34.8% from 32.4% and in Davao Doctors Hospital Inc. ("DDH") to 34.9% from 33.6%. In addition, MDI, through a wholly-owned subsidiary Colinas Verdes Hospital Managers Corporation, secured a 20-year contract to operate Cardinal Santos Medical Center. ("CSMC").

**Goal:** Increase the liquidity/free float to a minimum of 20% of the issued share capital
**Achievement:** Achieved. MPIC successfully increased the free float to 29% through offering Pesos 14.3 billion (US$300 million) new MPIC common shares to international investors. The equity raising strengthened its capital structure and broadened the shareholder base.

**Indofood**
**Goal:** Further improve operational and cost efficiencies
**Achievement:** Achieved. Consolidated net sales decreased 4% to Rupiah 37.1 trillion (US$3,588.7 million) from Rupiah 38.8 trillion (US$3,992.5 million) reflecting lower sales in the Agribusiness and Bogasari groups resulting from lower average CPO and flour prices. Despite these impacts, overall EBIT margin improved to 13.5% from 11.2% resulting from stronger operation and lower input costs.

**Goal:** Maintain market leadership position through product innovation and focused advertising and promotion programs, as well as increasing distribution penetration
**Achievement:** Achieved. New products for noodles, pasta, biscuit and snack units were launched during the year and many brands remain "Top of Mind". Product visibility within retail outlets has been improved.

**Goal:** Develop key account team to manage all group products
**Achievement:** Substantially achieved. Established a key account team to serve the food channel offering a one-stop service to hotel and food chains.

**Goal:** Continue the integration of IndoAgri and Lonsum's operations
**Achievement:** Achieved. Key organizational and operational areas are being addressed, comprising general and administrative expenses reduction, alignment of accounting and corporate policies and IT system, leveraging on joint purchasing, sharing of best agronomy practices and research and development, and developing infrastructure and milling facilities to achieve greater operational efficiency.

**Goal:** Preserve cash by tightening cash flow management and prioritizing capital expenditure
**Achievement:** Achieved. Capex was prioritized to critical items only. New planting program for Agribusiness group reduced to preserve cash.

**Goal:** Refinance short-term debts to longer term facilities

**Achievement:** Achieved. Short term debt composition declined to 39% from 61% in the previous year. In June, Indofood issued Rupiah 1.6 trillion (US$171 million) 5-year Rupiah bond to refinance Rupiah 1.0 trillion (US$106 million) bond due in July 2009 and other short-term borrowings.

In November, IndoAgri's subsidiary, PT Salim Ivomas Pratama ("SIMP"), issued a Rupiah 730 billion (US$78 million) 5-year Rupiah bond principally to refinance its short-term borrowings.

**Philex**
**Goal:** Maintain production of approximately 9 million tonnes of ore
**Achievement:** Substantially achieved. Total ore milled amounted to 8.2 million tonnes, 8% lower due to difficult ground conditions and ore handling problems.

**Goal:** Allocate additional resources to advance the Silangan Project
**Achievement:** Achieved and ongoing. The Silangan Project comprises the Boyongan deposit and Bayugo prospect. The preliminary mineral resource estimates for Bayugo were completed on schedule, with Independent Resources Estimations of South Africa issuing a technical report in November 2009 which indicated mineral resources of 86 million tonnes at 0.88% of copper and 0.73 gram of gold per tonne. The Boyongan deposit located one kilometer southeast of Bayugo deposit has a proven reserve of 65.8 million tonnes at 0.87% of copper and 1.39 grams of gold per tonne. A drilling program continues for further defining of the mineralization limits for the whole project.

## GOALS FOR 2010

**First Pacific**
- Promote the continuing growth in profitability across all group companies
- Drive an increase in head office cashflow
- Continue to explore investment opportunities in existing core businesses across the region

**PLDT**
- Achieve Core Income for 2010 of over Pesos 41 billion
- Achieve continued growth of the broadband business in terms of subscribers and revenues, as a key driver to overall revenue growth in 2010
- Upgrade the fixed and wireless networks within a capex budget of Pesos 28.6 billion, to support broadband growth and the group's new initiatives in the wireless business, including more aggressive voice offers
- Complete the consolidation and transfer of the voice/customer interaction services and BPO/knowledge processing solutions business into one entity
- Consolidate Piltel's interest in Meralco in combination with MPIC at Beacon Electric

**MPIC**
- Complete the consolidation of MPIC's and Piltel's Meralco stake into Beacon Electric
- Continue to grow billed volumes at Maynilad and minimize the impact of El Nino
- Conclude further investments in the Southern Tollway system, negotiations for SCTEX concession and secure equity at the Metro Pacific Tollways Corporation level in order to fund these expansion projects.
- Conclude the acquisition of the largest hospital in the Visayas region, complete the renovation at Makati Medical and plans for the re-development of Cardinal Santos and a 5-story building for doctors clinics at Davao Doctors
- Complete the take over of Manila North Harbour
- Continue evaluating promising infrastructure projects

**Indofood**
- Focus on organic growth through product innovations and distribution penetration
- Expand oil palm and sugar plantation area through new planting
- Enhance supply chain through increasing partnerships with farmers
- To strengthen balance sheet and reduce debt
- Continue harmonization of IT system

**Philex**
- Improve the output from the Padcal Mine to approximately 9 million tonnes of ore
- Complete the pre-feasibility study of the Silangan Project
- Start commercial operation of the Zamboanga coal mine of Brixton Energy & Mining Corporation
- Further evaluate the opportunities of petroleum/hydro-carbon assets

# FINANCIAL REVIEW
## 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 | **Net debt/ (cash)[i] 2009** | **Total equity 2009** | **Gearing[ii] (times) 2009** | Net debt/ (cash)[i] 2008 | Total equity 2008 | Gearing[ii] (times) 2008 |
|---|---|---|---|---|---|---|
| Head Office | **651.7** | **1,808.3** | **0.36x** | 731.3 | 1,558.3 | 0.47x |
| MPIC | **706.1** | **1,303.6** | **0.54x** | 483.0 | 416.4 | 1.16x |
| Indofood | **1,361.7** | **2,022.6** | **0.67x** | 1,306.5 | 1,479.2 | 0.88x |
| Group adjustments[iii] | **-** | **(1,095.4)** | **-** | - | (1,078.7) | - |
| **Total** | **2,719.5** | **4,039.1** | **0.67x** | 2,520.8 | 2,375.2 | 1.06x |
| **Associated** | | | | | | |
| PLDT | **1,309.0** | **2,145.6** | **0.61x** | 846.5 | 2,251.0 | 0.38x |
| Philex | **(62.4)** | **386.4** | **-** | (140.4) | 283.1 | - |

*(i) Includes pledged deposits and restricted cash*
*(ii) Calculated as net debt divided by total equity*
*(iii) Group adjustments mainly represents elimination of goodwill arising from acquisitions prior to 1 January 2001 against the Group's retained earnings and other standard consolidation adjustments to present the Group as a single economic entity.*

Head Office's gearing decreased principally because of a growth of its equity as a result of the proceeds from the rights issue. MPIC's gearing decreased principally due to a growth of its equity as a result of MPIC's issuance of shares in respect of (a) its public offering and (b) for the purchase of Meralco shares, coupled with the conversion of First Pacific's advances into equity, despite a higher net debt level. Indofood's gearing decreased principally because of a growth of its equity mainly as a result of its profit recorded for the year. PLDT's gearing increased as new borrowings were used to finance capital expenditure and investments, coupled with increased dividend payment which reduced total equity. Philex's net cash reduced principally because of payments for capital expenditure and the acquisition of an additional 50% interest in the Silangan Project.

The Group's gearing improved to 0.67 times level principally because of a growth of its equity as a result of the proceeds from the Company's rights issue and MPIC's issuance of new shares and its profit recorded for the year.

### MATURITY PROFILE
The maturity profile of debt of consolidated and associated companies follows.

**Consolidated**

| | Carrying amounts | | Nominal values | |
|---|---|---|---|---|
| US$ millions | **2009** | 2008 | **2009** | 2008 |
| Within one year | **829.7** | 1,207.0 | **830.4** | 1,207.3 |
| One to two years | **764.5** | 110.4 | **775.5** | 111.6 |
| Two to five years | **1,408.2** | 1,311.3 | **1,412.9** | 1,321.4 |
| Over five years | **682.9** | 530.0 | **692.9** | 538.7 |
| **Total** | **3,685.3** | 3,158.7 | **3,711.7** | 3,179.0 |

The change in the Group's debt maturity profile at 31 December 2009 principally reflects (a) the issuance of 5-year Rupiah bonds totaling Rupiah 2.1 trillion (US$219.4 million) and Islamic Lease-based bonds of Rupiah 278 billion (US$29.6 million) due between June 2014 and November 2014 by Indofood and its subsidiary company, PT Salim Ivomas Pratama (SIMP), and other long-term borrowings arranged by Indofood to refinance its short-term borrowings and (b) MPIC's new borrowings of Pesos 11.2 billion (US$242.4 million) which mature in 2018 and (c) Head Office's new borrowings of US$250 million of which US$200 million mature between May 2011 and November 2011 (and US$50 million mature in November 2010) to finance its additional investments in Philex and refinancing of its short-term borrowings.

**Associated**

| | PLDT | | | | Philex | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amounts | | Nominal values | | Carrying amounts | | Nominal values | |
| US$ millions | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Within one year | **275.3** | 315.9 | **278.5** | 318.3 | **-** | 85.0 | **-** | 85.0 |
| One to two years | **232.3** | 155.8 | **265.1** | 158.8 | **-** | - | **-** | - |
| Two to five years | **1,079.4** | 559.8 | **1,125.6** | 565.1 | **-** | - | **-** | - |
| Over five years | **551.4** | 523.9 | **552.7** | 609.5 | **-** | - | **-** | - |
| **Total** | **2,138.4** | 1,555.4 | **2,221.9** | 1,651.7 | **-** | 85.0 | **-** | 85.0 |

The change in PLDT's debt maturity profile at 31 December 2009 principally reflects new borrowings arranged to finance capital expenditure and investments.

**CHARGES ON GROUP ASSETS**

At 31 December 2009, the total borrowings include secured bank and other borrowings of US$1,971.7 million (2008: US$1,604.0 million). Such bank and other borrowings were secured by the Group's property, plant and equipment, plantations, other intangible assets, prepaid land premiums, other non-current assets, cash and cash equivalents and inventories equating to a net book value of US$1,032.0 million (2008: US$1,455.3 million) and the Group's interest of 24.3% (2008: 17.6%) in PLDT, Nil (2008: 8.5%) in MPIC, 2.0% (2008: 20.1%) in Philex, 99.8% (2008: 99.8%) in MPTC, 16.5% (2008: 24.5%) in DMWC, 9.9% (2008: 9.9%) in Maynilad and 10.5% (2008: Nil) in Meralco.

## 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, the Company 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 31 December 2009 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 | 28.0 | 5.66 |
| MPIC | 6.3 | 1.27 |
| Indofood | 16.6 | 3.36 |
| Philex | 6.9 | 1.40 |
| **Total** | **57.8** | **11.69** |

*(i) Based on quoted share prices as at 31 December 2009 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 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 | 1,582.7 | 802.5 | 1,300.1 | - | **3,685.3** |
| Cash and cash equivalents[(i)] | (507.0) | (160.9) | (260.0) | (37.9) | **(965.8)** |
| **Net debt/(cash)** | 1,075.7 | 641.6 | 1,040.1 | (37.9) | **2,719.5** |
| Representing: | | | | | |
| Head Office | 641.6 | 28.6 | - | (18.5) | **651.7** |
| MPIC | 93.1 | 613.0 | - | - | **706.1** |
| Indofood | 341.0 | - | 1,040.1 | (19.4) | **1,361.7** |
| **Net debt/(cash)** | 1,075.7 | 641.6 | 1,040.1 | (37.9) | **2,719.5** |

**Associated**

| US$ millions | US$ | Peso | Others | **Total** |
|---|---|---|---|---|
| **Net debt/(cash)** | | | | |
| PLDT | 918.9 | 394.7 | (4.6) | **1,309.0** |
| Philex | (52.6) | (9.8) | - | **(62.4)** |

*(i) Includes pledged deposits and 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** |
|---|---|---|---|---|---|
| Head Office[(i)] | 641.6 | - | 641.6 | - | **-** |
| MPIC | 93.1 | 55.4 | 37.7 | 0.4 | **0.1** |
| Indofood | 341.0 | - | 341.0 | 3.4 | **1.2** |
| PLDT | 918.9 | 392.6 | 526.3 | 5.3 | **1.0** |
| Philex | (52.6) | - | (52.6) | (0.5) | **(0.1)** |
| **Total** | **1,942.0** | **448.0** | **1,494.0** | **8.6** | **2.2** |

*(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 values of such investments. In addition, the value of the Company's investments may be impacted by sentiment towards specific countries.

**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[(ii)] | 289.3 | 632.1 | (269.7) | **651.7** |
| MPIC[(iii)] | 641.2 | 284.9 | (220.0) | **706.1** |
| Indofood | 458.8 | 1,379.0 | (476.1) | **1,361.7** |
| **Total** | 1,389.3 | 2,296.0 | (965.8) | **2,719.5** |
| **Associated** | | | | |
| PLDT | 1,379.0 | 759.4 | (829.4) | **1,309.0** |
| Philex | - | - | (62.4) | **(62.4)** |

*(i) Includes pledged deposits and restricted cash*

*(ii) In April 2009 and November 2009, a wholly-owned subsidiary company of the Company entered into two interest rate swap agreements, which effectively changed US$245.0 million of Head Office's bank loans from London Inter-bank Offer Rate (LIBOR)-based variable interest rates to fixed interest rates.*

*(iii) Manila North Tollways Corporation (MNTC), a subsidiary company of MPIC, entered into certain interest rate swap agreements, which effectively changed US$39.9 million of its bank loans at 31 December 2009 from LIBOR-based and Philippine Reference Rates (PHIREF)-based variable interest rates to fixed interest rates.*

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 | 632.1 | 6.3 | **6.3** |
| MPIC | 284.9 | 2.8 | **1.1** |
| Indofood | 1,379.0 | 13.8 | **5.0** |
| PLDT | 759.4 | 7.6 | **1.4** |
| **Total** | **3,055.4** | **30.5** | **13.8** |

## ADJUSTED NAV PER SHARE

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

| **At 31 December** US$ millions | Basis | **2009** | 2008 |
|---|---|---|---|
| PLDT | (i) | **2,803.4** | 2,200.1 |
| MPIC | (i) | **630.4** | 388.3 |
| Indofood | (i) | **1,660.2** | 373.4 |
| Philex | (i) | **690.8** | 80.3 |
| Head Office | | | |
| - Net debt | | **(651.7)** | (731.3) |
| - Receivables | (ii) | **-** | 149.2 |
| **Total valuation** | | **5,133.1** | 2,460.0 |
| **Number of ordinary shares in issue** (millions) | | **3,860.3** | 3,213.4 |
| Value per share | | | |
| - U.S. dollar | | **1.33** | 0.77 |
| - HK dollars | | **10.37** | 5.97 |
| Company's closing share price (HK$) | | **4.74** | 2.69 |
| Share price discount to HK$ value per share (%) | | **54.3** | 54.9 |

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

*(ii) Represents receivables from MPIC*

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On 15 October 2009, the Company announced its proposal to raise not less than approximately HK$2,187.5 million (approximately US$282.3 million) before expenses, by way of a fully underwritten rights issue. Under the proposal, the Company offered its shareholders an opportunity to acquire one new ordinary share for every five existing ordinary shares at the subscription price of HK$3.40 per one new ordinary share. The offer period commenced on 12 November 2009 and closed for acceptance on 24 November 2009. The rights issue was completed on 2 December 2009 and dealing in the 643.4 million new rights shares began on 4 December 2009.

Except as disclosed above, neither the Company, nor any of its subsidiary companies, has made any purchase, sale or redemption of any of the Company's listed securities during the year.

## CORPORATE GOVERNANCE

The Company is committed to building and maintaining high standards of corporate governance. The Company has adopted its own Code on Corporate Governance Practices (the First Pacific Code), which incorporates the principles and requirements set out in the Code on Corporate Governance Practices (CG Code) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (Listing Rules).

First Pacific has applied these principles and complied with all the CG Code mandatory provisions and has also met all of the recommended best practices in the CG Code throughout the current financial period, except for the following:–

1. The appointment of Independent Non-executive Directors (INEDs) representing at least one-third of the board, currently only four out of fourteen Directors are INEDs.
2. The disclosure of details of remuneration payable to members of senior management on an individual and named basis in the annual reports and accounts.
3. The announcement and publication of quarterly financial results within 45 days after the end of the relevant quarter.

First Pacific Board considers that it functions effectively with the current Board and will consider the appointment of additional INED as and when it is considered necessary. In addition, the Company does not issue quarterly financial results based on our judgment that we should emphasize the quality, rather than the frequency of disclosure of financial information. Furthermore, we are concerned that quarterly reporting might lead investors and management to focus on short-term financial performance, possibly at the expense of longer term financial performance of the Company. The disclosure of details of remuneration payable to members of senior management on an individual and named basis would not provide, in our view, any pertinent information to the readers in assessing the performance of the Company.

### Connected and continuing connected transactions

During the year, the Independent Non-executive Directors discussed with the Directors in relation to the following connected and continuing connected transactions and approved the disclosure of these transactions in the form of published announcements:–

- 6 January 2009: entering into of contracts involving provision of insurance services by connected persons of the Company to Indolakto on a continuing basis; and the revision of Indofood Insurance Caps for the years from 2008 to 2010.
- 7 January 2009: entering into of two new construction contracts between Maynilad and DMCI group in 2008 with expiry dates in 2009, which were awarded in accordance with Maynilad's open and public bidding process.
- 23 February 2009: entering into of a new construction contract between Maynilad and DMCI group which was awarded in accordance with Maynilad's open and public bidding process.
- 25 March 2009: entering into of a framework agreement between Maynilad and DMCI group, covering the provision of construction services by DMCI group to Maynilad, and a lease agreement between Maynilad and DMCI Project Developers, Inc., covering a lease of premises.
- 17 April 2009: entering into of a Civil Works Contract between Manila North Tollways Corporation (MNTC) and Leighton Contractors (Asia) Limited – Philippine Branch; as well as a Fixed Operating Equipment Design, Supply and Installation Contract between MNTC and Egis Projects Philippines, Inc. (Egis) in respect of the development of a new tollway - Segment 8.1.
- 20 May 2009: revision of annual caps relating to the framework agreement between Maynilad and DMCI group for the year 2009.
- 24 June 2009: disposal of 17.0% interest in Landco Pacific Corporation by MPIC to AB Holdings Corporation.
- 17 July 2009: entering into of a System Upgrade Contract between MNTC and Egis
- 20 July 2009: Discloseable and Connected Transactions relating to the deemed disposal of interest in MPIC arising from share subscription by Beneficial Trust Fund (BTF) of PLDT in MPIC; as well as acquisition of interest in Manila Electric Company by MPIC from BTF.
- 24 September 2009: revision of annual caps relating to the framework agreement between Maynilad and DMCI group for the years of 2009, 2010 and 2011.

Each of the above connected and continuing transactions relating to Indofood group, Maynilad and MNTC respectively has been subject to annual review by the Independent Non-executive Directors of the Company pursuant to Rule 14A.37 of the Listing Rules and confirmation of the auditors of the Company pursuant to Rule 14A.38 of the Listing Rules.

The Directors (including the Independent Non-executive Directors) considered that the terms of each of the connected and continuing connected transactions for the financial year ended 31 December 2009 are fair and reasonable and that they are in the best interests of the Company, Indofood, Maynilad, MNTC and their respective shareholders.

**Risk Management and Internal Control**
The Board is responsible for maintaining an adequate system of internal controls in the Group and reviewing its effectiveness through the Audit Committee.

In addition, during the year ended 31 December 2009, the Audit Committee reviewed and advised that:

- The internal controls and accounting systems of the Group function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication and compliant with all relevant laws and regulations.
- There are processes in place for identifying, evaluating and managing the material business risks faced by the Group. Such processes are incorporated in all the Group's businesses.

**AUDIT OPINION**
The auditors have expressed an unqualified opinion on the Group's financial statements for the year ended 31 December 2009 in their report dated 23 March 2010.

**REVIEW STATEMENT BY THE AUDIT COMMITTEE**
The Audit Committee has reviewed the 2009 annual results, including the accounting policies and practices adopted by the Group.

**FINAL DIVIDENDS**
The Board has recommended a final cash dividend of HK8.00 cents (U.S. 1.03 cent) per ordinary share. Subject to approval by shareholders at the 2010 Annual General Meeting, the final dividend will be paid in the currencies in accordance with the registered address of the shareholders (i.e. HK dollars for Hong Kong, Macau and PRC shareholders, Sterling pounds for UK shareholders and U.S. dollars for shareholders of all other countries). It is expected that the dividend warrants will be dispatched to shareholders on or about Wednesday, 30 June 2010.

**CLOSURE OF REGISTER OF MEMBERS**
The Register of Members will be closed from Thursday, 27 May 2010 to Monday, 31 May 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 26 May 2010.

**ANNUAL REPORT**
The 2009 Annual Report will be mailed to shareholders and will be available on the Company's website at www.firstpacific.com before the end of April 2010.

On behalf of the Board of Directors
**First Pacific Company Limited**
**Manuel V. Pangilinan**
*Managing Director and Chief Executive Officer*

Hong Kong, 23 March 2010

As at the date of this announcement, the Board of Directors of First Pacific comprises the following Directors:

Anthoni Salim, *Chairman*
Manuel V. Pangilinan, *Managing Director and CEO*
Edward A. Tortorici
Robert C. Nicholson
Napoleon L. Nazareno
Ambassador Albert F. del Rosario
Sir David W.C. Tang*, *KBE*
Tedy Djuhar
Sutanto Djuhar
Ibrahim Risjad
Benny S. Santoso
Graham L. Pickles*
Professor Edward K.Y. Chen*, *GBS, CBE, JP*
Jun Tang*

** Independent Non-executive Directors*