Investor Information

Head Office: Aboitiz Corporate Center,
Gov. Manuel A. Cuenco Avenue,
Kasambagan, Cebu City 6000, Philippines
Tel. No. (63-32) 231-2580 • Fax (63-32) 231-4031

Metro Manila Office: 6th Floor, Legazpi Street,
Legaspi Village, Makati City, Manila, Philippines
Tel. No. (63-2) 816-2881 • Fax (63-2) 817-3560

Common Stock
The Company's common stock is listed and
traded on the Philippine Stock Exchange.

Citibank N.A. serves as depository bank.

Stockholders' Meeting
The Company's regular stockholders' meeting is
held on the second Monday of May of every year.

Stockholders Services and Assistance
The Union Bank of the Philippines' Stock Transfer Department
serves as the Company's stock transfer
agent registrar. For inquiries regarding dividend
payments, change of address and account status,
lost or damaged stock certificates, please write or call:

UBP Stock Transfer Department
SSS Makati Bldg., Ayala Ave. cor. Herrera Street,
Makati City, Philippines
Tel: (63-2) 892-0011 to 40
Fax: (63-2) 813-0057 & 813-1149

Institutional Investor Inquiries
AEV welcomes inquiries from institutional
investors, analysts, and the financial community.
Please write or call:

Investor Relations
Aboitiz Equity Ventures, Inc.
Tel: (63-32) 233-9700
Fax: (63-32) 231-4031
e-mail: aev@aboitiz.com
www.aboitiz.com

Prepared by AEV Corporate Communications Group

SEC Form 20-IS

(INFORMATION STATEMENT)

Cebu: Aboitiz Corporate Center,
Gov. Manuel A. Cuenco Ave.,
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Tel. No. (63-32) 231-2580
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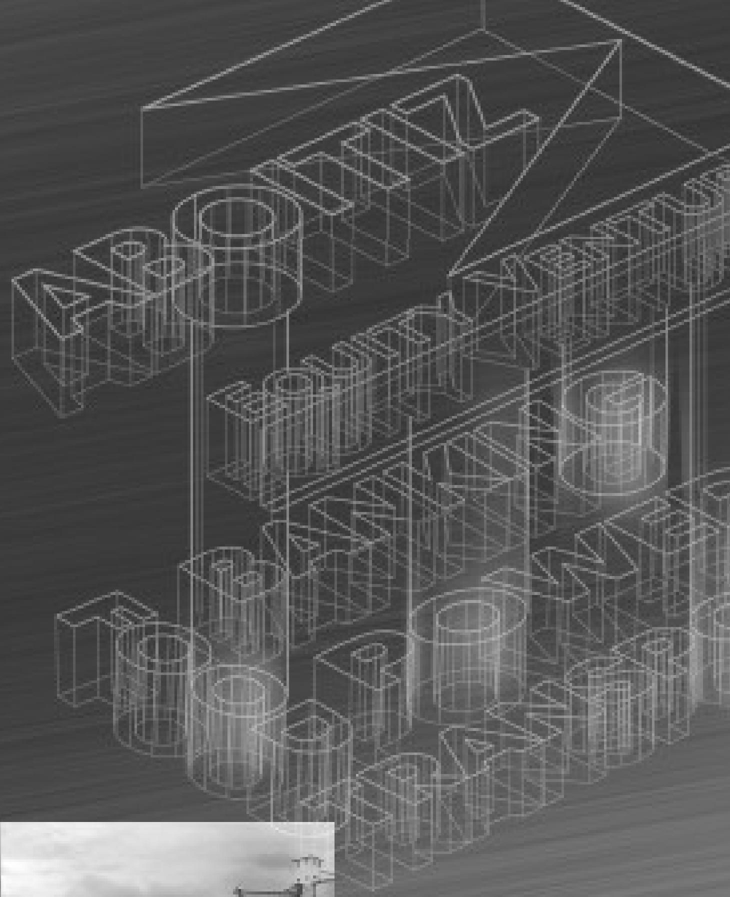

Aboitiz Equity Ventures, Inc and Subsidiaries

SEC FORM 20-IS

(Information Statement)

www.aboitiz.com

Report of Independent Auditors

The Stockholders and the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue, Cebu City

We have audited the accompanying consolidated balance sheets of Aboitiz Equity Ventures, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Aboitiz Equity Ventures, Inc. and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

J. J. M. SEBASTIAN
Partner
CPA Certificate No. 61687
SEC Accreditation No. 0097-A
Tax Identification No. 104-597-500
PTR No. 7012885
January 5, 2004
Makati City

April 2, 2004

Aboitiz Equity Ventures, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in Thousands)

	December 31	
	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 3 and 20)	**₱3,286,213**	₱2,294,333
Receivables - net (Notes 4 and 20)	**2,149,415**	1,952,772
Inventories - net (Note 5)	**991,539**	857,708
Deferred tax assets - net (Note 19)	**143,679**	169,970
Other current assets - net (Notes 20 and 24)	**167,344**	572,744
Total Current Assets	**6,738,190**	5,847,527
Noncurrent Assets		
Property, plant and equipment - net (Notes 6, 11 and 13)	**11,802,477**	10,709,351
Investments in shares of stock at equity - net (Notes 2, 7 and 14)	**12,313,885**	11,499,353
Investments in shares of stock at cost	**53,028**	50,503
Noncurrent advances to associates - net of allowance for losses of 23,472 (Note 20)	**248,716**	251,935
Other noncurrent assets - net (Notes 8, 18 and 19)	**377,376**	272,720
Total Noncurrent Assets	**24,795,482**	22,783,862
	₱31,533,672	₱28,631,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Bank loans (Notes 9 and 20)	**₱1,087,450**	₱1,612,412
Acceptances payable	–	390,316
Accounts payable and accrued expenses (Notes 10, 12, 20 and 22)	**2,498,527**	1,972,189
Income tax payable	**122,089**	100,737
Current portion of long-term debt (Notes 11 and 20)	**1,248,623**	920,776
Current portion of obligations under capital lease (Notes 6 and 13)	**115,338**	87,035
Total Current Liabilities	**5,072,027**	5,083,465
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 11 and 20)	**7,797,919**	6,231,295
Obligations under capital lease - net of current portion (Notes 6 and 13)	**504,081**	458,744
Customers' deposits (Note 12)	**810,724**	725,501
Total Noncurrent Liabilities	**9,112,724**	7,415,540
Minority Interest	**312,908**	544,681
Stockholders' Equity		
Capital stock (Note 14)	**5,794,600**	5,794,600
Additional paid-in capital (Note 14)	**2,100,640**	2,100,640
Retained earnings (Note 14)	**11,169,465**	9,642,286
Treasury stock at cost	**(1,707,985)**	(1,672,441)
Share in net unrealized loss on available-for-sale securities and underwriting accounts of an associate (Note 7)	**(320,707)**	(277,382)
Total Stockholders' Equity	**17,036,013**	15,587,703
	₱31,533,672	₱28,631,389

See accompanying Notes to Consolidated Financial Statements.

Aboitiz Equity Ventures, Inc. & Subsidiaries

Consolidated Statements of Income

(Amounts in Thousands, Except Per Share Amounts)

	Years Ended December 31		
	2003	2002	2001
NET REVENUE - (Notes 15 and 20)	**₱17,951,108**	₱16,574,344	₱14,421,421
COSTS AND EXPENSES (Notes 6, 16, 17, 20, 21, 22 and 24)	**16,437,509**	14,839,117	13,027,562
INCOME FROM OPERATIONS	**1,513,599**	1,735,227	1,393,859
OTHER INCOME			
Equity in net earnings of associates (Note 7)	**1,613,632**	1,922,092	1,131,245
Interest income (Note 20)	**189,728**	158,743	161,953
Interest expense (Note 9, 11, 12, 13 and 20)	**(1,030,100)**	(730,091)	(551,944)
Others - net (Notes 6, 18 and 20)	**226,224**	(33,490)	20,116
	999,484	1,317,254	761,370
INCOME BEFORE INCOME TAX	**2,513,083**	3,052,481	2,155,229
PROVISION FOR INCOME TAX (Note 19)	**403,894**	465,897	337,668
INCOME BEFORE MINORITY INTEREST	**2,109,189**	2,586,584	1,817,561
MINORITY INTEREST	**15,699**	308,863	125,351
NET INCOME	**₱2,093,490**	₱2,277,721	₱1,692,210
Earnings Per Common Share (Note 25)	**₱0.42**	₱0.45	₱0.31

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

(Amounts in Thousands, Except Par Value, Number of Shares and Per Share Amounts)

	Years Ended December 31					
	2003		2002		2001	
	Number of Shares	**Amount**	Number of Shares	Amount	Number of Shares	Amount
CAPITAL STOCK (Note 14)						
Authorized						
Preferred shares - ₱1 par value	**400,000,000**		400,000,000		400,000,000	
Common shares - ₱1 par value	**9,600,000,000**		9,600,000,000		9,600,000,000	
Issued						
Preferred shares	**100,000,000**	**₱100,000**	100,000,000	₱100,000	100,000,000	₱100,000
Common shares	**5,694,599,621**	**5,694,600**	5,694,599,621	5,694,600	5,694,599,621	5,694,600
		5,794,600		5,794,600		5,794,600
ADDITIONAL PAID-IN CAPITAL		**2,100,640**		2,100,640		2,100,640
RETAINED EARNINGS (Note 14)						
Balance at beginning of year		**9,642,286**		7,941,767		6,570,219
Net income		**2,093,490**		2,277,721		1,692,210
Cash dividends						
Common - ₱0.10 per share in 2003 and 2002, and ₱0.04 per share in 2001		**(497,821)**		(505,222)		(211,098)
Preferred - ₱0.68 per share in 2003, ₱0.72 per share in 2002 and ₱1.10 per share in 2001 (Note 25)		**(68,490)**		(71,980)		(109,564)
Balance at end of year		**11,169,465**		9,642,286		7,941,767
TREASURY STOCK AT COST						
Balance at beginning of year	**858,559,966**	**(1,672,441)**	529,338,840	(880,867)	487,932,391	(813,163)
Net change during the year	**14,599,295**	**(35,544)**	329,221,126	(791,574)	41,406,449	(67,704)
Balance at end of year	**873,159,261**	**(1,707,985)**	858,559,966	(1,672,441)	529,338,840	(880,867)
SHARE IN NET UNREALIZED LOSS ON AVAILABLE-FOR-SALE SECURITIES AND UNDERWRITING ACCOUNTS OF AN ASSOCIATE (Note 7)						
Balance at beginning of year		**(277,382)**		–		–
Net change during the year		**(43,325)**		(277,382)		–
Balance at end of year		**(320,707)**		(277,382)		–
		₱17,036,013		₱15,587,703		₱14,956,140

See accompanying Notes to Consolidated Financial Statements.

Aboitiz Equity Ventures, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,513,083**	₱3,052,481	₱2,155,229
Adjustments for:			
Depreciation and amortization	**1,506,975**	1,583,161	532,958
Provisions for:			
Doubtful accounts and probable losses	**87,717**	66,714	34,270
Losses on project costs, investments in shares of stock and advances	–	109,810	42,657
Decline in value of marketable equity securities	–	13,769	–
Write-downs of tied up vessels and other accounts	–	10,870	–
Retirement benefits	–	617	–
Equity in net earnings of associates	**(1,613,632)**	(1,922,092)	(1,131,245)
Unrealized foreign exchange gain	**(18,421)**	(69,462)	(1,646)
Loss (gain) on sale of:			
Property and equipment	**(18,275)**	28,238	(33)
Investments in shares of stock	**(15)**	–	–
Unrealized gain on recovery in value of marketable equity securities	**(13,777)**	–	(5,540)
Write-off of:			
Project costs and others	–	9,727	40,758
Goodwill on investments in shares of stock	–	–	20,606
Interest expense	**1,030,100**	730,091	551,944
Dividends received	**762,635**	1,096,089	643,113
Franchise tax expense	**76,063**	84,281	362,009
Interest income	**(189,728)**	(158,743)	(161,953)
Operating income before working capital changes	**4,122,725**	4,635,551	3,083,127
Decrease (increase) in:			
Receivables	**(284,360)**	168,051	(434,604)
Other current assets	**(101,734)**	(275,749)	257,250
Increase (decrease) in:			
Accounts payable and accrued expenses	**512,347**	134,018	(101,576)
Other current liabilities	**(390,316)**	54,205	78,111
Customers' deposits	**85,223**	57,439	76,388
Net cash generated from operations	**3,943,885**	4,773,515	2,958,696
Interest paid	**(1,011,248)**	(809,340)	(490,663)
Income and final taxes paid	**(276,461)**	(312,698)	(403,310)
Franchise taxes paid	**(81,846)**	(84,030)	(341,196)
Net cash provided by operating activities	**2,574,330**	3,567,447	1,723,527

(Forward)

Aboitiz Equity Ventures, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2003	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Marketable equity securities	**₱303,764**	₱197,433	₱–
Other noncurrent assets	**16,809**	(421,364)	57,681
Interest received	**193,254**	164,092	164,441
Additions to:			
Property, plant and equipment	**(2,703,245)**	(2,765,047)	(715,651)
Investments and noncurrent advances to associates	**(6,150)**	(204,210)	(58,871)
Proceeds from sale of property and equipment	**–**	129,098	–
Acquisition of WG & A and FILAM, net of cash	**–**	(5,517,709)	–
Effect of deconsolidation of VECO, net of cash	**–**	1,808,679	–
Net cash used in investing activities	**(2,195,568)**	(6,609,028)	(552,400)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments of):			
Bank loans	**(524,962)**	836,000	(485,430)
Long-term debt and obligations under capital lease	**1,968,111**	4,106,303	195,489
Cash dividends paid	**(565,390)**	(579,889)	(320,662)
Increase (decrease) in minority interest	**(247,518)**	174,441	(47,367)
Acquisition of treasury shares	**(35,544)**	(791,574)	(67,704)
Net cash provided by (used in) financing activities	**594,697**	3,745,281	(725,674)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**18,421**	69,462	1,646
NET INCREASE IN CASH AND CASH EQUIVALENTS	**991,880**	773,162	447,099
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,294,333**	1,521,171	1,074,072
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,286,213**	₱2,294,333	₱1,521,171

See accompanying Notes to Consolidated Financial Statements.

Aboitiz Equity Ventures, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Par Value, Per Share Amounts, Kilowatt Hour Rates, Number of Shares, Percentages, Useful Lives and Exchange Rates)

1. Corporate Information

Aboitiz Equity Ventures, Inc. (the Parent Company) and its subsidiaries (collectively referred to as "the Group") were incorporated in the Republic of the Philippines. The Parent Company is the publicly-listed holding and management company of the Aboitiz Group. The Group is engaged in various business activities in the Philippines, including electricity generation and distribution, banking and financial services, food manufacturing, and transportation. The average number of employees in the Parent Company was 41 in 2003 and 40 in 2002. On a consolidated basis, the average number of employees was 1,971 in 2003 and 2,037 in 2002. The registered office address of the Parent Company is Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on April 2, 2004.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the Philippines using the historical cost basis.

Changes in Accounting Policies

On January 1, 2003, the Group adopted the following accounting standards:

- Statement of Financial Accounting Standards (SFAS) 10/International Accounting Standards (IAS) 10, *Events After the Balance Sheet Date*, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the consolidated financial statements, principally the date of authorization for release of the consolidated financial statements.
- SFAS 22/IAS 22, *Business Combinations*, requires that an acquisition where an acquirer can be identified should be accounted for by the purchase method. Any goodwill arising from the acquisition should be amortized generally over 20 years. As a result, previously recognized goodwill amounting to ₱828,617 which resulted from the acquisition of William, Gothong & Aboitiz (WG & A) in 2002 and Northern Mini Hydro Corporation (NMHC) in 2000 were reallocated to property, plant and equipment in prior year's consolidated financial statements. The effect of the difference between depreciation and prior years goodwill amortization is not material. Adoption of this standard has no effect on the Group's goodwill amortization on its other investments in subsidiaries and associates.
- SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. Adoption of the standard has no effect on the Group's consolidated financial statements.

New Accounting Standards Effective Subsequent to 2003

The Accounting Standards Council has approved the following applicable accounting standards which will be effective subsequent to 2003:

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment of current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.
- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures that apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

  A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The lessee should also depreciate the leased asset. On the other hand, lessees should expense operating lease payments.

  A lessor is required to record finance leases as receivables at an amount equal to the net investment in the lease. Lease income should be recognized on the basis of a constant periodic rate of return on the lessor's outstanding net investment. A manufacturer or dealer lessor should recognize selling profit or loss as income for the period in accordance with its policy for outright sales. On the other hand, a lessor should present as an asset and depreciate accordingly assets that are subject to operating leases.

  The Group's lease obligations that have provisions for bargain purchase option, transfer of ownership at the end of the lease terms, and minimum lease payments which approximate the fair market value of the property are capitalized under "Property, plant and equipment" account in the consolidated balance sheets. The related obligation is recognized as a liability.

The Group will adopt SFAS 12/IAS 12 and SFAS 17/IAS 17 in 2004 and, based on current circumstances, does not believe the effect of adoption will be material.

- SFAS 21/IAS 21, *Effects of Changes in Foreign Exchange Rates,* which provides restrictive conditions for the capitalization of foreign exchange losses. The Group will adopt SFAS 21/IAS 21 in 2005 on a retroactive basis. The standard provides that, upon adoption in 2005, any undepreciated capitalized foreign exchange adjustments will be adjusted against beginning retained earnings and prior years' consolidated financial statements presented will be restated.

The Group's practice has been to capitalize foreign exchange adjustments arising from foreign currency-denominated obligation incurred to finance the construction of power plants. Foreign exchange adjustments incurred during the construction period are regarded as adjustments to borrowing costs. As provided for under SFAS 25, *Borrowing Costs*, certain portion of the foreign exchange adjustments during the construction period is eligible for capitalization as part of the power plant cost and, thus, will not be affected by the adjustment required by SFAS 21/IAS 21 in 2005. As of December 31, 2003, the Group's share in unamortized capitalized foreign exchange losses of associates, excluding the amount eligible for capitalization under SFAS 25, amounted to ₱675,000.

Basis of Consolidation and Investments in Shares of Stock

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries incorporated and registered in the Philippines:

	Nature of Business	Percentage of Ownership					
		2003		2002		2001	
		Direct	**Indirect**	Direct	Indirect	Direct	Indirect
Aboitiz Power Corporation (APC)	Power	**100.00**	–	100.00	–	100.00	–
Aboitiz Powersolutions, Inc. (APSI)	Power	**100.00**	–	–	100.00	–	100.00
Davao Light & Power Company, Inc.(DLP)	Power	**99.91**	–	–	99.91	–	99.91
Cotabato Light & Power Co., Inc. (CLP)	Power	**99.91**	–	–	99.91	–	99.91
Subic Enerzone Corporation (SEZC)	Power	**20.00**	**40.00**	–	–	–	–
NMHC	Power	–	**100.00**	–	100.00	–	100.00
Hydro Specialists, Inc.**	Power	–	**100.00**	–	100.00	–	100.00
Philippine Hydropower Corporation	Power	–	**100.00**	–	100.00	–	100.00
Benguet Hydropower Corporation	Power	–	**100.00**	–	100.00	–	100.00
Sinacbat Hydropower Corporation (Formerly Bukidnon Hydropower Corporation) **	Power	–	**100.00**	–	100.00	–	100.00
Hydro Electric Development Corporation (HEDCOR)	Power	–	**99.96**	–	99.96	–	99.96
Visayan Electric Company, Inc. (VECO)	Power	–	–	–	–	–	54.41
Pilmico Foods Corporation (PILMICO)	Food Manufacturing	**100.00**	–	100.00	–	100.00	–
Fil-am Foods, Inc. (FILAM)	Food Manufacturing	–	**100.00**	–	100.00	–	–
Fil-Agri Holdings, Inc.	Holding	–	**100.00**	–	100.00	–	60.00
WG & A	Transportation	**92.72**	–	90.05	–	–	–
Cebu Ferries Corporation (CFC)	Transportation	–	**100.00**	–	100.00	–	–
WG & A Supercommerce, Inc. (WSI)	Transportation	–	**100.00**	–	100.00	–	–
AEV Aviation, Inc. (AEV Aviation)	Service	**100.00**	–	100.00	–	100.00	–
AEV Properties, Inc.*	Real Estate	**100.00**	–	100.00	–	100.00	–
Cebu Praedia Development Corporation (CPDC)	Real Estate	**88.27**	**11.72**	88.27	11.72	88.27	11.72
Cotabato Ice Plant, Inc.	Manufacturing	–	**100.00**	–	100.00	–	100.00

** Still in the preoperating stage*
*** No commercial operations*

Subsidiaries are consolidated from the date on which control is transferred to the Group and ceased to be consolidated from the date on which control is transferred out of the Group.

On June 13, 2003, APC declared property dividends to the Parent Company in the form of investment in shares of stock of APSI, DLP, CLP, VECO, Hijos de F. Escaño, Inc. (Hijos), San Fernando Electric Light and Power Co., Inc. (SFELAPCO) and Pampanga Energy Ventures, Inc. (PEVI) amounting to ₱3,176,309. Thus, APSI, CLP and DLP became direct subsidiaries and VECO, Hijos, SFELAPCO and PEVI became direct associates of the Parent Company in 2003. The property dividend declaration was approved by the Securities and Exchange Commission (SEC) on June 17, 2003.

Investment in SEZC in 2003

On June 3, 2003, the Group, together with SFELAPCO, an associate, Mirant Philippines II Corp., OKEELANTA Corporation and Pampanga Sugar and Development Corp., established SEZC, a company incorporated to do and perform all acts and activities, whether direct or indirect, in connection with the Distribution Management Service Agreement (DMSA) for the Subic Bay Metropolitan Authority (SBMA) Power Distribution System (PDS) on a rehabilitate-operate-transfer arrangement. SEZC is 60% owned by the Group and started commercial operations on October 25, 2003 when SBMA transferred to the SEZC the administration, rehabilitation, operation and maintenance of the PDS.

Accordingly, the accounts of SEZC were included in the 2003 consolidated financial statements.

SEZC has contributed ₱17,638 net loss to the 2003 consolidated net income, ₱118,213 and ₱145,346 to the 2003 consolidated net revenue and costs and expenses, respectively, and ₱144,153 and ₱71,565 to the 2003 consolidated assets and liabilities, respectively.

Acquisition of WG & A in 2002

On September 23, 2002, the Parent Company acquired the combined 59% holdings of the Chiongbian Group and Carlos Gothong Group in WG & A.

On December 6, 2002, the Parent Company then acquired the 31% holdings of Accuria, Inc. (formerly Aboitiz Transport System, Inc.) and minority stockholders in WG & A allowing the Parent Company to own directly at least 90% of WG & A, giving the Parent Company direct control over the financial and operating policies of WG & A.

Consideration:

Purchase price	₱5,370,156
Costs associated with the acquisition	21,406
Total consideration	₱5,391,562

The cash outflow on acquisition is as follows:

Cash paid	₱2,707,139
Debt	2,684,423
	₱5,391,562

The fair values of the identifiable acquired assets and liabilities of WG & A at the date of acquisition are as follows:

Assets:	
Cash and cash equivalents	₱1,049,658
Receivables - net	1,020,778
Materials, parts and supplies - net	138,865
Deferred income tax - net	212,566
Prepaid expenses and other current assets - net	171,825
Property and equipment - net	5,412,311
Other noncurrent assets - net	321,982
	8,327,985
Liabilities:	
Accounts payable and accrued expenses	1,196,553
Loans payable	360,000
Long-term debt	919,131
Obligations under capital lease	556,345
	3,032,029
Minority interest	526,948
Parent Company's share in fair value of net assets	₱4,769,008

On October 17, 2003, the Parent Company also acquired the 40,000,000 common shares initially subscribed by Aboitiz & Company, Inc. (ACO) resulting to 92.72% direct holdings of WG & A.

Acquisition of FILAM in 2002

Also, on October 15, 2002, the Group acquired the 50% of FILAM held by PMI Nutrition, allowing the Group to own 100% of FILAM.

Consideration and cash outflow:

Purchase price	₱200,000
Costs associated with the acquisition	10,140
Total consideration and cash outflow	₱210,140

The acquisition of FILAM resulted to a negative goodwill of 8,460.

The fair values of the identifiable acquired assets and liabilities of FILAM at the date of acquisition are as follows:

Assets:	
Cash and cash equivalents	₱4,469
Receivables - net	95,671
Inventories - net	204,861
Prepaid expenses and other current assets	2,524
Property, plant and equipment - net	733,991
Other noncurrent assets	105,430
	₱1,146,946
Liabilities:	
Loans payable	₱179,912
Accounts payable and accrued expenses	121,435
Due to a stockholder	400,000
	701,347
Parent Company's share in fair value of net assets	₱445,599
50% additional acquisition	₱222,800

Accordingly, the accounts of WG & A and FILAM were included in the 2002 consolidated financial statements.

From the dates of acquisition, WG & A and FILAM have contributed the following to the consolidated financial statements in 2002:

	Assets	Liabilities	Net Revenue	Costs and Expenses	Net Income
WG & A	₱8,472,299	₱2,898,900	₱7,024,224	₱6,366,679	₱106,128
FILAM	988,377	551,176	1,338,163	1,111,509	33,465
	₱9,460,676	₱3,450,076	₱8,362,387	₱7,478,188	₱139,593

Investment in VECO

As of December 31, 2002, VECO is 54.45% directly and indirectly owned by the Parent Company. However, following the definition of control under SFAS 27/IAS 27, *Consolidated Financial Statements and Accounting for Investments and Subsidiaries*, the accounts of VECO were deconsolidated in 2002 as a result of the other shareholders group of VECO being able to exercise the power to govern the financial and operating policies of VECO in 2002. Effective 2002, the investment in VECO is accounted for under the equity method (see Note 30). Total assets and liabilities of VECO amounting to ₱3,778,142 and ₱1,897,213 as of December 31, 2002, respectively, and total revenue and costs and expenses amounting to ₱6,527,190 and ₱6,162,334 in 2002, respectively, were not included in the 2002 consolidated financial statements.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant inter-company transactions and balances have been eliminated in the consolidation.

The excess of the cost of the investments in shares of stock over the Parent Company's proportionate share in the underlying net assets of the consolidated subsidiaries at the date of acquisition is included as part of the "Other noncurrent assets" account in the consolidated balance sheets and amortized using the straight-line method over a period of 20 years or remaining corporate life, whichever is shorter.

Investments in shares of common stock of the following associates are accounted for under the equity method:

	Percentage of Ownership		
	2003	2002	2001
VECO	**54.57**	54.45	–
PILMICO - Mauri Foods Corporation (Mauri)	**50.00**	50.00	50.00
Luzon Hydro Corporation (LHC)	**50.00**	50.00	50.00
Aboitiz Transport Systems, Inc. (ATSI)	**49.54**	49.54	49.54
JAIB, Inc.**	**49.00**	49.00	49.00
Hijos	**46.66**	46.66	46.66
SFELAPCO	**43.78**	43.78	43.40
PEVI	**42.84**	42.84	42.84
Union Bank of the Philippines (UBP)	**42.02**	42.02	42.02
Mindanao Container Corporation (MINCON)	**35.00**	35.00	35.00
City Savings Bank (CSB)	**34.38**	34.38	34.38
Resort Ville 5 Project	**25.00**	25.00	25.00
Western Mindanao Power Corporation (WMPC)	**20.00**	20.00	20.00
Cebu International Container Terminal, Inc. (CICTI)**	**20.00**	20.00	20.00
Southern Philippines Power Corporation (SPPC)	**20.00**	20.00	20.00
South Western Cement Corporation	**20.00**	20.00	20.00
FILAM	–	–	50.00

***No commercial operations*

Under the equity method, the cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. The investments in associates are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statements of income reflect the Group's share of the results of operations of the associate. The Group's investment in associates includes goodwill (net of accumulated amortization and impairment loss) on acquisition, which is treated in accordance with the policy for goodwill. Dividends received are deducted from the carrying value of the investment. Equity in net earnings or losses is adjusted for the difference between the cost of the investment and the Group's proportionate share in the underlying net assets of the associates at the date of acquisition over a period of 20 years or remaining corporate life, whichever is shorter.

Other investments in shares of stock are valued at cost, net of allowance for any substantial and presumably permanent decline in value.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Marketable Equity Securities

Marketable equity securities (included under "Other current assets" account in the consolidated balance sheets) are carried at the lower of aggregate cost or market value, determined at balance sheet date. The amount by which aggregate cost exceeds the aggregate market value is accounted for as a valuation allowance. Any recoveries in market value, as long as these do not exceed cost, are recognized as unrealized gains and are included in the determination of net income. The cost of marketable equity securities sold is based on the average cost of all the shares of each security at the time of sale.

Receivables

Receivables are stated at invoice amount or face value, after allowance for doubtful accounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined using the specific identification method for wheat grains, first-in, first-out method for finished goods, fuel and lubricants and other raw materials, and average method for livestock and parts and supplies. NRV for finished goods and livestock is the selling price in the ordinary course of business less marketing costs. NRV for other inventories is the current replacement cost.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance are charged to income in the period the costs are incurred. Significant improvements and betterments, including overhaul costs, are capitalized. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Property, plant and equipment of certain subsidiaries are substantially carried at appraised values as determined by independent firms of appraisers at various dates. The related appraisal increases, however, were not recognized in the consolidated financial statements in order to conform with the cost method followed by the Parent Company.

Drydocking costs, consisting mainly of steel plate replacement of the ships' hull and related expenditures, are capitalized as part of ships in operation and amortized over 30 months or 2 1/2 years.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, or the terms of the lease in case of leasehold improvements, whichever is shorter, except for power plant equipment of certain subsidiaries as follows:

Buildings, warehouses and improvements	10 to 30 years
Power plant equipment	10 to 25 years
Transmission and distribution equipment	11 to 20 years
Distribution transformers and substation equipment	12 to 20 years
Machinery and equipment	10 to 20 years
Transportation equipment	3 to 10 years
Ships in operation and improvements, excluding drydocking costs	10 to 15 years
Drydocking costs	2 1/2 years
Containers	5 and 7 years
Handling equipment	5 and 7 years
Office furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	3 to 10 years
Miscellaneous	3 to 10 years

DLP and CLP depreciate power plant equipment based on a fixed rate and a percentage of kilowatt hours generated, while HEDCOR and NMHC use the straight-line method or the production method over expected plant output throughout the estimated operating life of the plant, whichever is higher.

The useful lives and the depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Ships under refurbishment includes the acquisition cost of the ships, the cost of on-going refurbishments and other direct costs. Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the refurbishment of ships and construction of other property and equipment are capitalized during the refurbishment and construction period. Ships under refurbishment and construction in progress are not depreciated until such time that the relevant assets are completed and put into operational use.

Tied up vessels, which represent excess vessels identified in the rationalization of WG & A's routing schedules, offered for sale, and presented as part of "Other noncurrent assets" account in the consolidated balance sheets, are stated at carrying amount (cost less accumulated depreciation) less allowance for any decline in value.

Impairment of Assets

The carrying values of investments, property, plant and equipment are other long-lived assets reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the assets is the greater of net selling price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income.

Leases

Capital Lease

Lease obligations having provisions for bargain purchase option, transfer of ownership at the end of the lease terms, and minimum lease payments which approximate the fair market value of the property are capitalized under the "Property, plant and equipment" account in the consolidated balance sheets. The related obligation is recognized as a liability. Depreciation is computed using the straight-line method over the estimated useful lives of the leased properties.

Operating Lease

Lease payments under an operating lease are recognized as expense based on the terms of the lease.

Goodwill

Goodwill (shown under "Investments in shares of stock at equity" and "Other noncurrent assets" accounts in the consolidated balance sheets) represents the excess of the cost of the acquisition over the fair value of identifiable net assets of subsidiaries or associates at the date of acquisition. Goodwill is carried at cost less accumulated amortization and any impairment in value. Goodwill is amortized over a period of 20 years or remaining corporate life, whichever is shorter and reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Noncurrent Advances to Associates

Noncurrent advances to associates are stated at face value less any allowance for probable losses. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Software Development Costs
Costs incurred in the development of computer software are capitalized. Software development costs, included under "Other noncurrent assets" account in the consolidated balance sheets, are amortized using the straight-line method over a period of two to three years.

The carrying value of software development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Project Costs
Costs incurred in project development activities (shown under "Other noncurrent assets" account in the consolidated balance sheets) are capitalized while project development is on-going. Project costs are charged to expense when it is determined that the related projects will not be pursued.

Provisions
Starting in 2003, provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

Revenue Recognition
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenues can be measured reliably.

Sales
Revenues from sale of power and electricity are recognized during the year in which actual capacity is generated and earned, and upon distribution of power to customers. Revenues from the sale of goods are recognized upon delivery to customers and transfer of risks and rewards is completed.

The Uniform Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001, specified that the billing will have the following components: generation charge, transmission charge, system loss charge, distribution charge, supply charge, metering charge, the CERA and Interclass and Lifeline Subsidies. National and Local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

Rendering of services
Freight and passage revenues are recognized when the related services are rendered, net of rebates and percentage taxes.

Rental income
Rental income is accounted for based on the terms of the lease.

Dividend income
Dividend income is recognized when the shareholders' right to receive payment is established.

Interest income
Interest is recognized as it accrues.

Research and Development Costs
Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

Foreign Currency Transactions
Transactions denominated in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Foreign currency denominated monetary assets and liabilities are restated using the exchange rate at balance sheet dates. Foreign currency gains and losses are taken to the consolidated statements of income, except for those liabilities incurred by WG & A for the acquisition of assets payable and invoiced in foreign currency which are included as part of the carrying amount of the related assets.

The Parent Company uses long-term forward foreign exchange agreements to manage its foreign currency exposure on US dollar denominated loans. Gains and losses on these agreements, computed based on changes on spot exchange rates, are recognized in the same period as the underlying loans.

The Group will adopt SFAS 21/IAS 21 in 2005 and will account for the effect of the changes on a retroactive basis and restate prior period consolidated financial statements on those dates. Management believes that, from an economic perspective, adoption of SFAS 21/IAS 21 in 2005 will not have a material effect on the Group's operations.

Subsequent Events
Subsequent events that provide evidence of conditions that existed at balance sheet date are reflected in the consolidated financial statements. Subsequent events that are indicative of conditions that arose after the balance sheet date are disclosed in the consolidated financial statements when material.

Borrowing Costs
Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Retirement Cost
Retirement cost is computed based on the projected unit credit method which includes current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected remaining average working lives of the covered employees.

Income Tax

Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for: (a) the future tax consequences attributable to temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) carryforward benefits of the minimum corporate income tax (MCIT); and, (c) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rate applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled and MCIT and NOLCO are expected to be applied.

A valuation allowance is provided for deferred tax assets that are likely unrecoverable as a result of the income tax holiday and when it is more likely than not that some or all of the deferred tax assets will not be realized in the future. Any change in the valuation allowance on deferred tax assets is included in the computation of the provision for deferred income tax for the year.

Business Segments

For management purposes, the Group is organized into four major operating entities (power, food manufacturing, transportation and parent company/others) according to the nature of the products and the services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The entities are the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 26.

Earnings Per Common Share

Earnings per common share are computed by dividing net income attributable to common shares by the weighted average number of shares outstanding during the year, after retroactive adjustments for any stock dividends declared during the current year, net of treasury shares.

3. Cash and Cash Equivalents

This account consists of:

	2003	2002
Cash on hand and in banks	**₱627,520**	₱534,514
Short-term investments (see Note 20)	**2,658,693**	1,759,819
	₱3,286,213	₱2,294,333

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of between one day and ninety days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

4. Receivables

This account consists of:

	2003	2002
Trade - net of allowance for doubtful accounts of ₱152,308 in 2003 and ₱444,227 in 2002 (see Note 20)	**₱1,680,609**	₱1,509,530
Receivables from insurance and other claims	**38,817**	91,286
Notes receivable	**13,725**	19,792
Others (see Note 20)	**416,264**	332,164
	₱2,149,415	₱1,952,772

Receivables from insurance and other claims pertain to WG & A's claims for reimbursement of losses against insurance coverage for hull and machinery, cargo, and personal accidents.

Notes receivable consists of interest-bearing notes received by WG & A from various customers for the conversion of latter's past due trade accounts.

5. Inventories

This account consists of:

	2003	2002
At cost		
Finished goods (see Note 17)	**₱47,741**	₱48,166
Livestock	**83,057**	54,721
Wheat grains and other raw materials	**455,502**	363,330
Fuel and lubricants	**87,712**	82,468
Purchases in transit	**102,268**	67,916
At NRV		
Parts and supplies	**215,259**	241,107
	₱991,539	₱857,708

The cost of inventories recognized as part of costs of goods sold in the consolidated statements of income amounted to ₱13,000 and ₱15,400 in 2003 and 2002, respectively.

6. Property, Plant and Equipment

This account consists of:

	2002	Additions	Disposals	Transfers/ Reclassifications	**2003**
Cost					
Land	₱119,414	₱405	₱–	₱–	**₱119,819**
Buildings, warehouses and improvements	1,300,839	72,524	(3,189)	–	**1,370,174**
Power plant equipment	1,875,827	13,164	(22)	–	**1,888,969**
Transmission and distribution equipment	1,376,385	161,747	(4)	–	**1,538,128**
Distribution transformers and substation equipment	736,512	69,437	–	–	**805,949**
Machinery and equipment	1,079,590	58,990	(4,085)	–	**1,134,494**
Transportation equipment	399,828	79,756	(15,314)	–	**464,270**
Ships in operation and improvements	6,878,691	746,146	(151,024)	(61,595)	**7,412,218**
Containers (see Note 13)	1,934,282	174,315	(27,270)	–	**2,081,327**
Handling equipment	946,387	35,225	(25,587)	–	**956,025**
Office furniture, fixtures and equipment	438,302	95,594	(7,344)	(1)	**526,551**
Leasehold improvements	241,027	74,724	(150,467)	1,281	**166,565**
Miscellaneous	138,338	40,143	(59,692)	–	**118,789**
Ships under refurbishment and construction in progress	1,112,452	1,180,246	–	(589,153)	**1,703,545**
	18,577,874	2,802,416	(443,988)	(649,468)	**20,286,824**
Accumulated depreciation and amortization					
Buildings, warehouses and improvements	296,615	55,349	–	–	**351,964**
Power plant and equipment	652,947	87,554	(18)	–	**740,483**
Transmission and distribution equipment	632,022	120,922	(2)	–	**752,942**
Distribution transformers and substation equipment	387,652	62,408	–	–	**450,060**
Machinery and equipment	413,770	63,585	(84)	(7)	**477,264**
Transportation equipment	178,825	48,295	(10,515)	–	**216,605**
Ships in operation and improvements	2,693,041	773,151	(145,800)	(560,280)	**2,760,112**
Containers	1,268,785	170,737	(26,969)	–	**1,412,553**
Handling equipment	795,737	45,443	(25,588)	–	**815,592**
Office furniture, fixtures and equipment	316,324	78,566	(5,303)	(456)	**389,131**
Leasehold improvements	131,734	74,345	(150,467)	–	**55,612**
Miscellaneous	101,071	20,633	(59,675)	–	**62,029**
	7,868,523	1,600,988	(424,421)	(560,743)	**8,484,347**
Net book value	₱10,709,351	₱1,201,428	(₱19,577)	(₱88,725)	**₱11,802,477**

Containers include units acquired under capital lease arrangements (see Note 13). The related depreciation of the leased containers, amounting to ₱137,368 and ₱117,920 in 2003 and 2002, respectively, was computed on the basis of WG & A's depreciation policy for owned assets.

As of December 31, 2003 and 2002, the balance of undepreciated capitalized foreign exchange losses arising from acquisition of containers amounted to ₱4,933 and ₱15,899, respectively. WG & A stopped capitalizing foreign exchange losses in 2001.

The operation of one of WG & A's vessels has been suspended due to irreparable damage sustained in its main engine on February 8, 2003. The management decided to fully refurbish the vessel and it is expected to be back in operation in 2004. The carrying value of the vessel amounting to ₱443,834 was reclassified to "Ships under refurbishment" account in property, plant and equipment with the net of book value of the damaged engine which was written off.

Ships under refurbishment include borrowing costs incurred in connection with the construction and refurbishment amounting to ₱22,617 in 2003.

Construction in progress includes ₱158,223 in 2003 relating to expenditures for the construction of a feedmill plant. This amount includes borrowing costs incurred in connection with the construction amounting to ₱11,417 in 2003.

To ensure the maintenance of the vessels in accordance with international standards, WG & A has availed of the services of a ship management company to oversee the regular upgrading and maintenance of the vessels.

7. Investments in Shares of Stock at Equity

The details and movements of this account follow:

	2003	2002
Acquisition cost		
Cost	**₱8,350,528**	₱8,343,668
Less allowance for decline in value of investments	**(28,995)**	(28,995)
	8,321,533	8,314,673
Accumulated equity in net earnings		
Balance at beginning of year	**3,462,062**	1,944,306
Equity in net earnings for the year (net of goodwill amortization ₱128,026 in 2003 and ₱140,022 in 2002)	**1,613,632**	1,922,092
Accumulated losses of FILAM (see Note 2)	–	89,210
Accumulated earnings of VECO (see Note 2)	–	602,543
Cash dividends received	**(762,635)**	(1,096,089)
Balance at end of year	**4,313,059**	3,462,062
	12,634,592	11,776,735
Share in net unrealized loss on available-for-sale securities and underwriting accounts of an associate	**(320,707)**	(277,382)
	₱12,313,885	₱11,499,353

The detailed carrying values of investments in associates which are accounted for under the equity method follow:

	2003	2002
UBP	**₱7,537,270**	₱6,865,429
VECO	**1,760,234**	1,808,679
LHC	**1,689,697**	1,366,292
WMPC	**377,963**	440,039
CICTI	**240,125**	240,125
SPPC	**238,025**	251,078
PEVI	**192,217**	196,336
SFELAPCO	**160,075**	163,382
Others	**118,279**	167,993
	₱12,313,885	₱11,499,353

The unamortized excess of cost of investment over the Parent Company's proportionate share in the underlying net assets of its associates amounted to ₱1,969,419 and ₱1,740,982 as of December 31, 2003 and 2002, respectively.

Following is the summarized financial information of significant associates:

	2003	2002
UBP		
Total assets	**₱78,247,433**	₱73,482,959
Total liabilities	**62,937,626**	59,953,517
Gross revenue	**3,809,072**	3,534,456
Net income	**2,150,079**	1,541,017
VECO		
Total assets	**3,852,427**	3,778,142
Total liabilities	**1,992,177**	1,897,213
Gross revenue	**6,830,136**	6,527,190
Net income	**118,499**	235,642
LHC		
Total assets	**7,938,842**	7,926,491
Total liabilities	**3,592,798**	4,223,061
Gross revenue	**2,379,899**	2,716,534
Net income	**1,413,031**	1,860,497

8. Other Noncurrent Assets

This account consists of:

	2003	2002
Software development costs - net of accumulated amortization of ₱65,877 in 2003 and ₱42,170 in 2002	**₱217,996**	₱50,142
Deferred tax assets - net (see Note 19)	**41,538**	116,876
Tied up vessels - net of accumulated depreciation and allowance for decline in value of ₱90,757	**–**	31,813
Others	**117,842**	73,889
	₱377,376	₱272,720

The additions to software development costs and related amortization amounted to ₱191,562 and ₱23,707 in 2003 and ₱44,936 and ₱30,454 in 2002, respectively. Provision for decline in value of tied up vessels amounted to ₱10,870 in 2002 (see Note 18).

9. Bank Loans

These represent short-term, peso-denominated, unsecured loans obtained from local banks. The loans bear interest at rates ranging from 6.03% to 8.78% and 5.67% to 12.75% in 2003 and 2002, respectively.

10. Accounts Payable and Accrued Expenses

This account consists of:

	2003	2002
Trade payable (see Note 22)	**₱1,236,187**	₱883,836
Accrued expenses (see Notes 12 and 20)	**808,462**	475,788
Nontrade payable and others (see Note 20)	**453,878**	612,565
	₱2,498,527	₱1,972,189

11. Long-term Debt

This account consists of loans from:

	2003	2002
Parent Company		
Financial institutions		
Due in 2003	**₱–**	₱200,000
Due in 2004	**414,000**	414,000
Due in various dates until 2008	**2,856,000**	1,656,000
Non-financial institutions		
Due in 2003	**–**	73,102
Due in 2004	**–**	555,339
Due in various dates until 2007	**1,206,176**	1,635,362
	4,476,176	4,533,803
Subsidiaries:		
WG & A		
Financial institutions		
Due in 2003	**–**	268,833
Due in 2004	**378,000**	231,333
Due in various dates until 2005	**1,371,333**	218,000
Unsecured short-term loans for refinancing	**970,000**	–
	2,719,333	718,166
Installments payable		
Due in 2003	**–**	41,597
Due in 2004	**43,418**	41,597
Due in various dates until 2005	**21,859**	24,408
	65,277	107,602
	2,784,610	825,768
DLP		
Due in 2003	**–**	148,077
Due in 2004	**292,308**	292,308
Due in various dates until 2006	**334,615**	334,615
	626,923	775,000
PILMICO		
Due in 2003	**–**	189,167
Due in 2004	**120,897**	140,128
Due in various dates until 2008	**357,436**	237,905
	478,333	567,200
HEDCOR		
Due in 2005	**450,000**	450,000
FILAM		
Due in various dates until 2008	**200,000**	–
CLP		
Due in various dates until 2008	**30,500**	–
Total	**9,046,542**	7,152,071
Less current portion	**1,248,623**	920,776
	₱7,797,919	₱6,231,295

Repayments of long-term debt including unsecured short-term loans for refinancing of ₱970,000 in 2004, are scheduled as follows:

	2003	2002
2003	**₱–**	₱920,776
2004	**2,218,623**	1,674,705
2005	**2,524,993**	1,955,256
2006	**2,085,430**	1,272,874
2007	**1,928,470**	1,317,849
2008	**289,026**	10,611
	₱9,046,542	₱7,152,071

Parent Company
The loans availed by the Parent Company from financial institutions include:

a. US dollar denominated loans amounting to ₱270,000 which are unsecured, bear interest based on London Interbank Offered Rate (LIBOR), plus a margin of 1.25% per annum. The ₱150,000 and ₱120,000 loans are payable in lump sum amount on March 26, 2004 and May 7, 2004, respectively.

   Forward foreign exchange agreements, with the same terms as the underlying obligations, were entered into to cover foreign currency exposure on the loans. The agreements effectively fixed the principal repayments of the loans at the original spot exchange rate, which was determined using the Philippine Dealing System weighted average at the close of business on the second business day prior to date of drawdown (spot rate). The forward foreign exchange agreements also provide forward covers for all quarterly interest payments. The loan amounts shown are based on the fixed dollar rates of ₱55.586 to $1 and ₱53.254 to $1 in 2003 and 2002, respectively.

b. An unsecured loan amounting to ₱1,000,000 payable in 12 equal quarterly consecutive installments up to 2007 to commence at the end of the eighth quarter with interest based on a three-month treasury securities displayed on MART one plus 2% per annum.

c. An additional unsecured loan amounting to ₱200,000 in 2003 payable in five years up to 2008 to commence at the end of the third year with 25% of the principal due on the third and fourth years, and a bullet payment of the remaining principal balance upon maturity, with interest rate of 1.75% from the first to the third year, 2.25% for the fourth year and 2.5% for the fifth year.

d. Unsecured loans totaling to ₱1,800,000 payable in five years up to 2007 with two years grace period on a quarterly basis to commence at the end of the eighth quarter with 4% of the principal due on the 8th to 12th quarters, 7.5% due on the 13th to 16th quarters and 12.5% due on the 17th to 20th quarters, with interest based on a three-month treasury securities displayed on MART one plus 2% per annum.

The loans availed by the Parent Company from non-financial institutions include loans from the Chiongbian Group and the Carlos Gothong Group, ACO and other WG & A stockholders amounting to ₱1,206,176 and ₱1,754,438 which are payable in 48 equal consecutive monthly installments commencing on the last day of the 13th month, with interest of 12% per annum up to October 1, 2007. These loans arose mainly from the acquisition by the Parent Company in 2002 of the combined 59% holdings of the Chiongbian Group and the Carlos Gothong Group in WG & A.

In 2003, the BOD unanimously approved the acceleration of the payment of the loans to the Chiongbian Group and Carlos Gothong Group, ACO and other WG & A stockholders. Accordingly, principal payments originally due in 2004 for the Chiongbian Group and Carlos Gothong Group were paid in 2003. On the other hand, loans with ACO and other WG & A stockholders were fully paid in 2003.

WG & A
Loans availed by WG & A from financial institutions are denominated in Philippine pesos with average interest rates ranging from 6.7% to 10.89% and are collateralized by certain parcels of land and vessels of WG & A with net book value of ₱5,197,515 and ₱2,872,598 as of December 31, 2002, respectively. The pledged assets have an aggregate appraised value of ₱8,509,538 and ₱4,447,671 as of December 31, 2003 and 2002, respectively.

Some agreements covering bank loans provide for certain restrictions and requirements that include, among others, maintenance of favorable financial ratios such as current ratio, debt to tangible net worth ratio and debt service coverage ratio. As of December 31, 2003, WG & A was not able to meet the required current ratio of 1:1. However, WG & A obtained waiver from majority of the creditor banks.

Unsecured short-term loans are shown as part of "Long-term debt" account in the consolidated balance sheets in 2003 because WG & A has obtained on March 25, 2004 an approved long-term loan facility from a syndicate of banks to pay these loans. These loans will be paid in 2004, after drawdown from the approved long-term loan facility.

Installments payable, which are denominated in US dollars at an average interest rate of 8.27%, have outstanding balances amounting to US$1,174 as of December 31, 2003 and US$2,021 as of December 31, 2002 and have been restated to Philippine pesos at the rates prevailing as of those dates of ₱55.586 to US$1 and ₱53.254 to US$1, respectively.

DLP
Loans availed by DLP from financial institutions include:

a. Loan amounting to ₱350,000 which bears interest at 10.89% per annum and is payable in five years up to 2005 in equal quarterly payments to commence at the end of the two years grace period with 20% of the principal due on the third year and the remaining 80% due equally on the fourth and fifth years. The loan is secured by a mortgage trust indenture participation via Mortgage Participation Certificate on property, plant and equipment with a carrying value of ₱350,000 and ₱475,000 as of December 31, 2003 and 2002, respectively.

b. Loan amounting to ₱276,923 which is funded under the Countryside Loan Fund Program of the Land Bank of the Philippines (LBP) and bears interest at 1% spread over the variable LBP pass-on rate to UBP, which rate is repriced on a quarterly basis. As of December 31, 2003, the interest rate is at 10.53%. The loan is payable in 13 equal quarterly payments up to December 2006.

PILMICO
The loans availed by PILMICO include:

a. Loans totaling to ₱128,333 which bear interest at 13.87% and 11.10% in 2003 and 2002, respectively. The first loan, obtained in 1999, is payable in five years (inclusive of a two-year grace period) in 12 equal quarterly amortizations from 2002 to 2004. The second loan, obtained under the Japan Bank for International Cooperation (formerly the Export-Import Bank of Japan) Facility for Private Sector Development Program of the Development Bank of the Philippines (JBIC 4 Program), is payable over a period of five years in 15 equal and successive quarterly installments up to December 2005.

   These loans prohibit PILMICO to incur major capital expenditures and/or investments, and to pay out dividends or make any distributions to its stockholders, purchase, redeem, retire or otherwise acquire for value any of its capital stock now or hereafter outstanding (other than as a result of conversion of any shares of capital stock into shares of any other class of capital stock), return any capital to its stockholders (other than distributions payable in shares of its capital stock), or make any capital asset distribution to its stockholders without prior approval from the financial institution. The financial institution may waive and/or reconsider the prohibition on the payment of dividends by PILMICO commencing in the year 2004.

b. Loan amounting to ₱62,500 payable in seven years (inclusive of a three-year grace period) in 16 equal quarterly amortizations from 2000 to 2003. The loan was fully paid in 2003, which bears interest based on the 91-day treasury bill rate, plus a margin of 1.25%. As of December 31, 2003 and 2002, interest rates are at 6.57% and 13.75%, respectively.

c. Loans amounting to ₱350,000 availed under the Land Bank of the Philippines (LBP) Countryside Loan Fund Program (LBP-CLF 1). The loan is payable in five years (inclusive of a two-year grace period) in 13 equal quarterly installments of 19.2 million starting October 2004 and bears an interest of one percent per annum, spread over the prevailing fixed LBP passed-on rate and is payable quarterly.

   These loans are secured by a mortgage trust indenture in favor of the designated trustee, for the pari-passu and pro rata benefit of the creditor banks, covering various land, building, machinery and equipment, including all property whether already owned or subsequently acquired for replacement of the mortgaged property, and property acquired out of the proceeds of the loans with a net book value of ₱27,000 and ₱328,900 as of December 31, 2003 and 2002, respectively.

   The mortgage trust indenture requires PILMICO among others, to maintain and preserve the collateral values as well as seek prior approval for any merger, consolidation, change in ownership, suspension of business operations, disposal of assets, maintenance of financial ratios and others. As of December 31, 2003, PILMICO was in compliant with the loan covenants.

FILAM
This account consists of term loans to finance the construction of a second feedmill plant and working capital requirements. The first loan is payable in seven years (inclusive of a three year grace period) in 12 quarterly installments of ₱12,500 starting May 2, 2005 and bears interest at a fixed rate of 9.41%. The second loan is payable in five years (inclusive of a two year grace period) in 12 quarterly installments of ₱4,200 starting March 10, 2006 and bears interest at an agreed rate of 7.84% as determined by the Land Bank of the Philippines-Countryside Livelihood Program, plus a spread of 2.20%. Such interest shall be fixed for the entire term.

The above loans are secured by a mortgage trust indenture in favor of the designated trustee, for the pari-passu and pro rata benefit of the creditor banks, covering FILAM's assets which at all times must cover 100% of FILAM's outstanding loan balance with a net book value of ₱646,000 as of December 31, 2003.

CLP
The loan availed by CLP pertains to term loans to partially finance capital and regular expenditures for the rehabilitation and modernization of distribution systems. The loan is payable in five years (inclusive of a two year grace period) in 13 quarterly installments of ₱2,300 starting September 26, 2005 and bears interest at a fixed rate of 8.78%. The loan is secured by a mortgage trust indenture in favor of the designated trustee, for the pari-passu and pro rata benefit of the creditor banks, covering CLP's land and building improvements and transmission and distribution equipment with a carrying value of ₱30,500 as of December 31, 2003.

HEDCOR
The loan availed by HEDCOR is a five year loan payable on January 31, 2005. Interest rate is at one and a half percent per annum over and above the rate determined and announced by Banko Sentral ng Pilipinas as the average award for the purchase of 91-day Treasury Bills plus gross receipts tax payable quarterly. The loan is secured by a chattel mortgage on power plant, machinery and improvements of HEDCOR with a carrying value of ₱516,461 and ₱556,858 as of December 31, 2003 and 2002, respectively and a suretyship by APC.

Loan convenant includes, among others, maintenance of current ratio of at least 1:1 and debt to equity ratio of 15:1 and restrictions such as: incur any debt with a maturity of more than one year without bank notification, substantial change in its present majority ownership or management, enter into any merger or consolidation, sell, lease, mortgage, hypothecate, pledge or otherwise transfer 51% or more of its assets. As of December 31, 2003, HEDCOR was in compliant with the loan covenants.

12. Customers' Deposits

Customers' deposits consist of meter and service deposits received from customers. Meter deposits cover 50% of the cost of the metering equipment while the service deposits secure payment of the monthly bills for electricity consumption and is equivalent to the estimated bill for one month of service. These deposits are refundable, together with accrued interest, only upon termination of the contract at the customers' request, provided that the metering equipment is returned in good condition and all accounts in the name of the customer have been paid. However, if the service deposits and related accrued interest already exceed the customers' current monthly bills, a refund of the excess can also be made upon the customers' request.

Meter and service deposits earned interest at 6% per annum prior to 1995. In 1995, the then Energy Regulatory Board (ERB) amended the provisions of the standard rules and regulations governing electric utilities, which include, among others, increasing the interest rate of these deposits from 6% to 10%. The subsidiaries substantially accrue interest at a rate of 10% per annum.

The accrued interest related meter and service deposits amounting to ₱18,244 in 2003 and ₱14,025 in 2002, which are estimated to be refunded in the following year, are shown as part of "Accounts payable and accrued expenses" account in the consolidated balance sheets (see Note 10).

13. Capital Leases

WG & A acquired certain containers under capital lease arrangements denominated in US dollars. Containers as of December 31, 2003 and 2002, shown under "Property, plant and equipment" account in the consolidated balance sheets, include the following amounts for the capital leases:

	2003	2002
Cost	**₱1,144,204**	₱969,916
Less accumulated depreciation	**489,435**	352,066
	₱654,769	₱617,850

The aggregate future minimum payments under the leases are as follows:

	2003	2002
2003	**₱–**	₱141,076
2004	**176,918**	138,853
2005 to 2009	**608,206**	414,392
Total minimum lease obligation	**785,124**	694,321
Less amount representing interest	**165,705**	148,542
Present value of minimum lease payments	**619,419**	545,779
Less current portion	**115,338**	87,035
	₱504,081	₱458,744

The outstanding balance of the US dollar denominated capital lease obligation of US$11,143 as of December 31, 2003 and US$10,249 as of December 31, 2002 have been restated at the rates prevailing as of those dates of ₱55.586 to US$1 and ₱53.254 to US$1, respectively.

14. Stockholders' Equity

a. Capital Stock

The preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, reissuable and may be issued from time to time by the BOD in one or more series and fixed before issuance thereof, the number of shares in each series, and all designations, relative rights, preferences and limitations of the shares in each series. Preferred shares that are redeemed by the Parent Company may be re-issued.

Holders thereof are entitled to receive dividends payable out of the earned surplus profit of the Parent Company as the BOD may, by resolution, determine. In the event of any liquidation or dissolution or winding up of the Parent Company, the holders of the preferred shares shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made to the holders of the common shares.

b. Retained Earnings

The portion of the Parent Company's retained earnings corresponding to the equity in the undistributed net earnings of subsidiaries and associates amounting to ₱4,004,013 and ₱6,648,560 as of December 31, 2003 and 2002, respectively, is not currently available for dividend distribution unless declared by the subsidiaries and associates.

15. Revenue

This account consists of revenue from:

	2003	2002	2001
Sale of:			
Power and electricity	**₱4,808,973**	₱4,668,786	₱10,867,115
Goods	**5,389,536**	4,826,543	3,506,238
Freight - net	**4,021,218**	3,679,917	–
Passage	**3,626,945**	3,379,303	–
Others	**214,039**	122,278	48,068
	18,060,711	16,676,827	14,421,421
Less percentage taxes	**109,603**	102,483	–
	₱17,951,108	₱16,574,344	₱14,421,421

16. Costs and Expenses

This account consists of:

	2003	2002	2001
Cost of purchased power (see Note 22)	**₱2,630,563**	₱2,801,723	₱7,544,081
Cost of goods sold (see Notes 5 and 17)	**4,771,587**	4,099,903	3,061,374
Operating expenses (see Notes 6, 17, 20, 21 and 24)	**6,020,567**	5,440,380	2,422,107
Depreciation of ships (see Note 6)	**821,796**	757,293	–
Terminal expenses (see Notes 17, 20, 21 and 24)	**1,087,120**	903,672	–
Overhead expenses (see Notes 17, 20, 21 and 24)	**1,105,876**	836,146	–
	₱16,437,509	₱14,839,117	₱13,027,562

17. Cost of Goods Sold and Operating Expenses

Cost of goods sold consists of:

	2003	2002	2001
Raw materials used	**₱4,502,147**	₱3,844,073	₱2,891,207
Direct labor	**19,620**	15,495	8,190
Manufacturing overhead			
Depreciation	**67,387**	63,348	34,273
Power	**48,496**	51,853	47,959
Repairs and maintenance	**37,132**	40,849	18,860
Utilities and supplies	**29,382**	29,865	–
Taxes and licenses	**11,634**	11,435	5,464
Indirect labor	**10,705**	12,350	8,910
Freight and handling	**4,245**	4,748	3,096
Insurance	**3,613**	2,293	1,561
Fuel and lubricants	**3,271**	2,982	2,352
Employees' benefits	**2,497**	2,518	2,154
Pest control	**1,669**	1,996	1,161
Miscellaneous	**29,364**	21,706	2,306
	249,395	245,943	128,096
Cost of goods manufactured	**4,771,162**	4,105,511	3,027,493
Finished goods inventory (see Note 5)			
Beginning of year	**48,166**	42,558	76,439
End of year	**(47,741)**	(48,166)	(42,558)
	₱4,771,587	₱4,099,903	₱3,061,374

Operating expenses consist of:

	2003	2002	2001
Fuel and lubricants	**₱2,031,682**	₱1,690,350	₱13,272
Outside services	**892,464**	816,432	33,222
Depreciation	**740,127**	350,658	498,685
Repairs and maintenance	**467,847**	520,188	143,005
Salaries and employees' benefits (see Notes 21 and 24)	**454,216**	380,731	632,844
Insurance	**267,957**	274,488	7,851
Freight and handling	**190,565**	85,087	157,441
Commissions	**186,438**	183,924	3,197
Management fees (see Note 20)	**176,304**	166,076	76,211
Taxes and licenses	**163,279**	155,942	446,768
Charter hire (see Note 20)	**80,476**	284,639	–
Transportation and travel	**64,818**	56,274	56,048
Training and development	**43,991**	53,156	4,760
Advertising	**28,478**	21,049	15,458
Miscellaneous	**231,925**	401,386	333,345
	₱6,020,567	₱5,440,380	₱2,422,107

Terminal expenses in 2003 and 2002 consist of:

	2003	2002
Depreciation	**₱236,527**	₱315,050
Transshipment cost	**200,048**	35,000
Management fees (see Note 20)	**191,588**	96,693
Outside services	**107,000**	116,571
Repairs and maintenance	**100,144**	131,393
Hustling and shifting	**84,063**	73,868
Rent (see Notes 20 and 24)	**37,282**	27,943
Salaries and employees' benefits (see Note 21)	**30,518**	31,175
Fuel and lubricants	**20,453**	17,321
Insurance	**13,895**	15,512
Others	**65,602**	43,146
	₱1,087,120	₱903,672

Overhead expenses in 2003 and 2002 consist of:

	2003	2002
Salaries and employees' benefits (see Note 21)	**₱473,607**	₱330,388
Advertising	**120,351**	82,270
Communication, light and water	**95,887**	71,974
Depreciation and amortization	**93,841**	96,812
Provision for doubtful accounts	**82,117**	43,152
Outside services	**78,796**	88,094
Rent (see Notes 20 and 24)	**43,581**	40,075
Entertainment, amusement and recreation (EAR)	**20,251**	21,530
Others	**97,445**	61,851
	₱1,105,876	₱836,146

Under Bureau of Internal Revenue (BIR) Regulations No. 10-2002 dated July 24, 2002, effective September 1, 2002, the maximum amount of EAR expenses allowable as deduction from gross income for purposes of income tax computation shall not exceed 1% and 0.05% of the gross revenue of the subsidiaries engaged in the sale of services and goods, respectively. EAR expenses charged to operations amounted to ₱20,251 in 2003 and ₱21,530 for the period September 1, 2002 to December 31, 2002, respectively.

18. Other Income (Charges) – Others

This account consists of:

	2003	2002	2001
Rent income (see Note 20)	**₱56,729**	₱15,657	₱3,092
Gain (loss) on sale of:			
Property and equipment	**18,275**	(28,238)	33
Investments in shares of stock	**15**	–	–
Foreign exchange gains (losses) – net	**17,820**	12,354	(721)
Unrealized gain on recovery in value of marketable equity securities	**13,777**	–	5,540
Dividend income	**3,547**	55,983	122,355
Write-off of:			
Project costs and others	**–**	(9,727)	(40,758)
Goodwill on investments in shares of stock	**–**	–	(20,606)
Provisions for:			
Losses on project costs, investments in shares of stock and advances	**–**	(109,810)	(42,657)
Decline in value of marketable equity securities	**–**	(13,769)	–
Write-down of tied up vessels and other accounts (see Note 8)	**–**	(10,870)	–
Others- net	**116,061**	54,930	(6,162)
	₱226,224	(₱33,490)	₱20,116

19. Income Tax

The deferred tax assets and liabilities represent the tax effects of the following:

	2003	2002
Deferred tax assets – current		
MCIT	**₱67,704**	₱2,762
NOLCO	**59,191**	6,148
Allowances for:		
Doubtful accounts and probable losses	**52,801**	150,306
Inventory obsolescence	**35,900**	41,636
Unrealized foreign exchange loss	**22,894**	16,407
	238,490	217,259
Less adjustments:		
Valuation allowance	**₱28,179**	₱14,577
Adjustment for income tax holiday	**14,253**	–
	42,432	14,577
	196,058	202,682
Deferred tax liability-current		
Unrealized foreign exchange gain	**52,379**	32,712
Net current deferred tax assets	**₱143,679**	₱169,970

	2003	2002
Deferred tax assets – noncurrent		
NOLCO	**₱277,759**	₱170,078
Unrealized foreign exchange loss	**11,631**	5,358
MCIT	**9,137**	35,278
Accrued retirement benefits	**5,737**	2,038
Unamortized past service cost	**2,225**	2,934
Allowances for:		
Doubtful accounts	**298**	4,627
Decline in value of tied-up vessels	**–**	8,096
Inventory obsolescence	**–**	758
Unamortized preoperating expenses and software and project development costs	**–**	23,266
Others	**1,662**	20
	308,449	252,453
Less adjustments:		
Valuation allowance	**254,258**	119,595
Adjustment for income tax holiday	**2,163**	–
	52,028	132,858
Deferred tax liabilities – noncurrent		
Unamortized streetlight donations capitalized	**1,646**	6,589
Unamortized customs duties and taxes capitalized	**8,844**	9,393
	10,490	15,982
Net noncurrent deferred tax assets	**₱41,538**	₱116,876

The net noncurrent deferred tax assets are included under "Other noncurrent assets" account in the consolidated balance sheets.

The "Provision for income tax" account consists of:

	2003	2002	2001
Current			
Corporate income tax	**₱289,301**	₱303,807	₱361,791
Final tax	**8,512**	4,382	8,323
	297,813	308,189	370,114
Deferred	**106,081**	157,708	(32,446)
	₱403,894	₱465,897	₱337,668

In computing for deferred tax assets and liabilities, the rate used was 32%, which is the rate expected to apply to taxable income in the years in which the deferred tax assets and liabilities are expected to be recovered or settled. In addition, the effect of WG & A's availment of income tax holiday incentive for its registration with the Board of Investments (BOI) (see Note 23) on certain temporary differences has likewise been considered in the above computation.

The current provision for income tax includes MCIT. The carryforward benefits of the MCIT are set up as deferred tax assets and can be claimed as tax credit against the normal income tax up to three years. Of the total MCIT as of December 31, 2003, ₱1,484 can be claimed up to 2004, ₱36,071 can be claimed up to 2005, and ₱39,286 can be claimed up to 2006. Of the total NOLCO as of December 31, 2003, ₱83,619 can be claimed up to 2004, ₱447,875 can be claimed up to 2005 and ₱521,475 can be claimed up to 2006.

A reconciliation between the statutory income tax rate and the effective income tax rate follows:

	2003	2002	2001
Statutory income tax rate	**32.00%**	32.00%	32.00%
Tax effects of:			
Interest income subjected to final tax at lower rates - net	**(1.64)**	(0.47)	(0.34)
Nontaxable equity in net earnings of associates	**(20.55)**	(20.15)	(16.80)
Others	**6.26**	3.88	0.81
	16.07%	15.26%	15.67%

20. Related Party Transactions

ACO, the holding company of the Group, owns 49.79% of the Parent Company's common shares.

In the normal course of business, the Group enters into transactions with related parties, principally consisting of the following:

a. Management and other service contracts of certain subsidiaries and associates with ACO with fees based on agreed rates. Management and other service fees paid by the Group to ACO amounted to ₱124,009, ₱101,930 and ₱88,372 in 2003, 2002 and 2001, respectively.

b. Temporary cash advances from and to ACO for working capital requirements. The advances are interest bearing at an average rate of 5.12% in 2003, 11.82% in 2002 and 5.28% in 2001. Net interest expense (income) on temporary cash advances from (to) ACO amounted to (₱13,006), ₱43,440 and (₱6,265) in 2003, 2002 and 2001, respectively.

c. PILMICO's investment in preferred shares of stock of ACO amounting to ₱300,000 as of December 31, 2002. Dividend income on such investment amounted to ₱4,845, ₱35,773 and ₱56,490 in 2003, 2002 and 2001, respectively. These investments are short-term in nature, intended to be available for working capital requirements, and redeemable any time at the option of PILMICO. PILMICO redeemed its investment in preferred shares of stock of ACO in 2003.

d. Short-term investments with UBP, an associate, amounting to ₱1,598,634 and ₱1,142,328 as of December 31, 2003 and 2002, respectively. These placements bear average interest rates ranging from 1.25% to 4.5% and 2.8% to 4% in 2003 and 2002, respectively. Interest income earned by the Group is mainly derived from short-term investments (see Note 3).

e. Aviation services rendered by AEV Aviation. Total aviation services income from associates amounted to ₱2,527, ₱1,137 and ₱1,797 in 2003, 2002 and 2001, respectively.

f. Lease of commercial office units by ACO and certain associates from CPDC for a period of three years. Rental income amounted to ₱6,354, ₱6,392 and ₱6,364 in 2003, 2002 and 2001, respectively.

g. Shipping services, charter hire, ship management services, purchases of steward supplies, availment of stevedoring, arrastre, trucking, and repair services to/from WG & A as follows:

	2003		2002	
	Service Revenue	**Purchases/Expenses**	Service Revenue	Purchases/Expenses
Reefer Van Specialist, Inc.	**₱130,072**	**₱1,770**	₱104,096	₱835
Starlight Express, Inc.	**73,378**	**–**	–	–
Aboitiz One, Inc.	**6,647**	**16,959**	84,396	22,004
Aboitiz Jebsen Group	**278**	**80,531**	–	287,858
Cox Trucking Corporation	**–**	**110,773**	–	100,951
Total Distribution Logistics Systems, Inc.	**–**	**71,542**	–	72,240
Other related companies	**35,923**	**182,135**	35,900	127,213
	₱246,298	**₱463,710**	₱224,392	₱611,101

h. Long-term loan from ACO, which bears interest at 12% in 2002. Interest expense amounted to ₱3,568 in 2002 (see Note 11). This loan was fully paid in 2003.

The consolidated balance sheets include the following amount resulting from the above transactions with related parties:

	2003					
	Cash and Cash Equivalents	**Receivables**	**Noncurrent Advances to Associates**	**Bank Loans**	**Accounts Payable and Accrued Expenses**	**Long-term Debt**
UBP	**₱1,598,634**	**₱–**	**₱–**	**₱–**	**₱–**	**₱710,756**
ATSI	**–**	**–**	**248,234**	**–**	**–**	**–**
CSB	**–**	**–**	**–**	**9,000**	**–**	**–**
ACO	**–**	**–**	**–**	**–**	**11,450**	**–**
Others	**–**	**90,562**	**482**	**–**	**60,801**	**–**
	₱1,598,634	**₱90,562**	**₱248,716**	**₱9,000**	**₱72,251**	**₱710,756**

	2002						
	Cash and Cash Equivalents	Receivables	Other Current Assets	Noncurrent Advances to Associates	Bank Loans	Accounts Payable and Accrued Expenses	Long-term Debt
UBP	₱1,142,328	₱–	₱–	₱–	₱–	₱–	₱630,000
ATSI	–	–	–	251,454	–	–	–
CSB	–	–	–	–	15,000	–	–
ACO	–	–	300,000	–	–	10,768	428,176
Others	–	95,107	–	481	–	50,189	–
	₱1,142,328	₱95,107	300,000	₱251,935	₱15,000	₱60,957	₱1,058,176

21. Retirement Plan

The Group has a funded, noncontributory retirement plan covering all regular and full-time employees. The benefits are based on years of service and final monthly salary at date of retirement. The plan provides for normal, early retirement, death and disability benefits. Retirement cost charged to operations amounted to ₱63,455 in 2003, ₱33,343 in 2002 and ₱37,017 in 2001. The funds are administered by a duly appointed Board of Trustees.

As of the latest actuarial valuation, the actuarial present value of accrued retirement benefits amounted to ₱237,910. The fair value of the plan assets amounted to ₱75,444. The principal actuarial assumptions used to determine retirement cost were a discount rate of 12%, salary increase of 10% per year and interest rates ranging from 10% to 12% per year. The Group's annual contribution to the retirement plan consists of a payment covering current service cost for the year plus a payment toward funding the actuarial accrued liability.

22. Rate Regulation, Power Supply and Other Agreements

a. Prior to the approval of the Power Bill on June 8, 2001 (see Note 30), certain subsidiaries are subject to the ratemaking regulations and regulatory policies by the then ERB and gives recognition to the ratemaking policies of the ERB. The ERB has been replaced by a new regulating body, Energy Regulatory Commission (ERC).

b. Certain subsidiaries entered into a contract for the purchase of electricity from National Power Corporation (NPC). Under the contract, the parties have agreed, among others, on the contract demand (1,560 kilowatts, 216 kilowatts and 28 kilowatts for DLP, CLP and SEZC, respectively) and contract energy (504,367 kilowatt hours, 104,400 kilowatt hours and 13,286 kilowatt hours for DLP, CLP and SEZC, respectively per year at varying monthly rates per kilowatt hour), allocated by NPC to the subsidiaries for each year during the effectivity of the agreements.

c. HEDCOR has an Electric Power Supply Agreement with various corporations to supply or sell power and energy produced by the mini hydro electric power plants. The maturity of these agreements vary from one off-taker to another with the nearest to mature on calendar year 2007 and the farthest on 2018. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties. HEDCOR is committed to supply 130,000 kilowatt hours per year based on 88% of the Luzon grid rate per kilowatt hour.

d. HEDCOR signed an Operating and Maintenance Agreement with LHC to provide administration services and operate the 70 MW hydro electric power plant of LHC located in Alilem, Ilocus Sur starting on October 27, 2000 until December 31, 2006 unless extended by mutual written agreement by the parties.

23. Registration with the Department of Energy and Board of Investments

a. HEDCOR and NMHC are registered as mini hydro electric power developers with the Department of Energy under Republic Act (RA) No. 7156, entitled "Mini Hydro Electric Power Incentive Act". By virtue of such registration, these companies are entitled to certain incentives, among which are the special privilege tax at the rate of 2% on power sales, tax and duty free importation of machinery, equipment and materials, tax credit on domestic capital equipment and income tax holiday. Income tax holiday on these companies, tax and duty free importation and tax credit on domestic capital equipment expired in 2000.

   With the effective of R.A. 9136 known as "Electric Power Industry Reforms Act of 2001" sales of generated power by generation companies shall be value added zero-rated. HEDCOR and NMHC has updated their registration with the BIR from VAT Exempt to VAT Zero Rated effective April 10, 2003.

b. WG & A is registered with the BOI under the Omnibus Investment Code of 1987 as a new operator of inter-island shipping through its SuperFerry 15, 16, 17 and 18 vessels on a pioneer status starting February 13, 2003. Such registration entitles WG & A to income holiday for a period of six years from the date of registration. Income tax holiday incentive availed in 2003 amounted to ₱20,827.

24. Other Commitments

a. Lease Commitments
   Certain subsidiaries lease their office space for a period of one to three years. Total rent charged to operations amounted to ₱1,700, ₱831 and ₱1,150 in 2003, 2002 and 2001, respectively.

b. Memorandum of Agreement

   In 2002, WG & A entered into a Memorandum of Agreement (Agreement) with Asian Terminals, Inc. (ATI) for the use of the latter's facilities and services at the South Harbor for the embarkation and disembarkation of WG & A's domestic passengers, as well as loading, unloading and storage of the cargoes. The agreement shall be for a period five years, which term commenced effective May 1, 2003, the first schedule service of WG & A at the South Harbor. The agreement is renewable for another five years under such terms as may be agreed by the parties in writing. If the total term of the Agreement is less than ten years, then WG & A shall pay the penalty equivalent to unamortized reimbursement of capital expenditures and other related costs incurred by ATI in the development of South Harbor.

   Under the terms and conditions of the Agreement, WG&A shall avail of the terminal services of ATI, which include among others, stevedoring, arrastre, storage, warehousing and passenger terminal. Domestic tariff for such services shall be subject to an escalation of 5% every year. The agreement became effective on January 14, 2003.

c. Agreement with SBMA

On May 15, 2003, the SBMA, the Parent Company and DLP entered into a DMSA for the privatization of the SBMA PDS on a rehabilitate-operate-and-transfer arrangement. Under the terms of the DMSA, SEZC was created to undertake the administration, rehabilitation, operation and maintenance of the PDS, including the provision of electric power service to the consumers within the Subic Bay Freeport Secured Areas of the Subic Bay Freeport Zone as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA.

The DMSA shall be effective for a 25-year period commencing on the turnover date and consisting of two phases: (a) the five-year rehabilitation period and (b) 20-year operation, management and maintenance period. Total estimated rehabilitation costs committed by SEZC under the DMSA amounted to ₱368,600.

For and in consideration of the services and expenditures of SEZC for it to undertake the rehabilitation, operation, management and maintenance of the PDS, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the PDS, provided, however, that SEZC shall remit the amount of ₱40,000 to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the PDS. The said remittance may be reduced by the outstanding power receivables from SBMA, including for streetlights power consumption and maintenance, for the immediately preceding year.

The unamortized portion of the remittance to SBMA as of December 31, 2003 amounting to ₱33,300 is presented as part of "Other current assets" account in the consolidated balance sheets.

In connection with the implementation of the DMSA, SEZC streamlined the operations of the PDS through employee right-sizing by way of a two-pronged approach: one, an Early Disengagement Program (EDP); and two, a "secondment" scheme for all others who did not avail of the EDP whereby employees are employed by SEZC on a four-month probationary period until given regular status.

Total cost of severance amounted to ₱25,000 in 2003 (see Note 17).

25. Earnings Per Common Share and Dividends Per Preferred Share

Earnings per common share amounts were computed as follows:

		2003	2002	2001
a.	Net income (after dividends on preferred shares of ₱68,490 in 2003, ₱71,980 in 2002 and ₱109,564 in 2001)	**₱2,025,000**	₱2,205,741	₱1,582,646
b.	Weighted average number of outstanding common shares	**4,820,310,110**	4,943,294,910	5,184,390,626
c.	Earnings per common share (a/b)	**₱0.42**	₱0.45	₱0.31

Dividends per preferred share amounts were computed as follows:

		2003	2002	2001
a.	Preferred dividends paid	**₱68,490**	₱71,980	₱109,564
b.	Average number of outstanding preferred shares	**100,000,000**	100,000,000	100,000,000
c.	Preferred dividends per share (a/b)	**₱0.68**	₱0.72	₱1.10

Aboitiz Equity Ventures, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Par Value, Per Share Amounts, Kilowatt Hour Rates, Number of Shares, Percentages, Useful Lives and Exchange Rates)

26. Business Segment Information

Financial information on the operations of the business segment are summarized as follows:

	Power			Food Manufacturing			Transportation		Parent Company and Others			Eliminations			Consolidated		
	2003	2002	2001	**2003**	2002	2001	2003	2002	2003	2002	2001	2003	2002	2001	**2003**	2002	2001
REVENUES	**P4,808,973**	P4,672,938	P10,867,115	**P5,472,031**	P4,826,543	P3,506,238	**P7,692,261**	P7,090,066	**P60,338**	P54,791	P48,068	**(P82,495)**	(P69,994)	P–	**P17,951,108**	P16,574,344	P14,421,421
RESULTS																	
Segment results	**P816,407**	P806,282	P1,240,536	**P196,776**	P414,433	P239,626	**P669,995**	P657,545	**(P169,579)**	(P143,033)	(P86,303)	**P–**	P–	P–	**P1,513,599**	P1,735,227	P1,393,859
Unallocated corporate income (expenses)	**P55,036**	P6,827	P15,889	**P37,756**	P52,489	P67,113	**P64,009**	(P1,646)	**P66,069**	(P82,311)	(P57,989)	**P3,353**	(P8,849)	(P4,897)	**P226,223**	(P33,490)	P20,116
Operating income															**1,513,599**	1,735,227	1,393,859
Interest expense	**(230,753)**	(255,789)	(416,463)	**(56,726)**	(98,853)	(75,080)	**(254,984)**	(179,591)	**(487,637)**	(195,858)	(60,401)				**(1,030,100)**	(730,091)	(551,944)
Interest income	**37,237**	44,847	65,217	**3,509**	2,784	6,784	**8,356**	56,758	**140,626**	54,354	89,952				**189,728**	158,743	161,953
Equity in net earnings of associates	**1,812,538**	1,283,282	688,352	**195,900**	6,642	(5,176)	–	–	**2,546,662**	2,665,207	1,937,510	**(2,941,468)**	(2,033,039)	(1,489,441)	**1,613,632**	1,922,092	1,131,245
Provision for income tax	**(221,724)**	(191,666)	(286,310)	**(17,651)**	(72,828)	(55,738)	**(158,463)**	(185,740)	**(6,056)**	(15,663)	4,380				**(403,894)**	(465,897)	(337,668)
Income before minority interest															**2,109,189**	2,586,584	1,817,561
OTHER INFORMATION																	
Segment assets	**P1,454,710**	P1,556,509	P2,900,242	**P1,424,843**	P1,371,905	P1,303,316	**P2,243,406**	P2,266,283	**P2,219,781**	P1,177,147	P1,063,244	**(P604,550)**	(P524,317)	(P615,365)	**P6,738,190**	P5,847,527	P4,651,437
Investments in shares of stocks at equity method	**4,704,223**	4,982,473	2,437,349	**629,574**	45,366	188,800	–	–	**19,792,733**	18,922,191	12,439,012	**(12,812,645)**	(12,450,677)	(5,186,695)	**12,313,885**	11,499,353	9,878,466
Unallocated corporate assets	**(1,460,315)**	2,981,121	6,168,056	**1,275,941**	1,051,353	606,785	**7,121,872**	6,090,885	**21,350**	1,312,627	2,564,820	**2,602,119**	(100,677)	(2,009,520)	**12,481,597**	11,284,509	7,330,141
Consolidated total assets															**31,533,672**	28,631,389	21,860,044
Segment liabilities	**(96,370)**	780,968	1,662,593	**178,890**	552,871	429,095	**1,721,867**	1,167,353	**267,416**	482,472	294,227	**426,724**	(621,159)	(941,347)	**2,498,527**	2,362,505	1,444,568
Unallocated corporate liabilities	**2,637,916**	2,737,299	3,896,468	**1,377,422**	914,412	685,725	**3,764,029**	1,731,547	**4,476,858**	4,659,902	471,429	**(570,001)**	93,340	(449,977)	**11,686,224**	10,136,500	4,603,645
Consolidated total liabilities															**14,184,751**	12,499,005	6,048,213
Capital expenditure	**439,618**	4,807,261	674,690	**282,307**	115,682	11,183	**1,967,521**	1,438,302	**13,799**	10,929	56,589				**2,703,245**	6,372,174	742,462
Depreciation and amortization	**272,890**	303,812	466,902	**76,314**	69,693	37,584	**1,121,491**	1,169,155	**36,280**	27,546	28,472				**1,506,975**	1,583,161	532,958
Non-cash expenses other than depreciation and amortization	**16,305**	29,381	68,871	**5,903**	–	–	**82,117**	57,206	**221**	130,739	91,695				**104,546**	217,326	160,566

Notes to Consolidated Financial Statements

(Amounts in Thousands, Except Par Value, Per Share Amounts, Kilowatt Hour Rates, Number of Shares, Percentages, Useful Lives and Exchange Rates)

27. Contingencies

There are legal cases filed against certain subsidiaries in the normal course of business. Management and its legal counsel believe that the subsidiaries have substantial legal and factual bases for their position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements.

28. Other Events after the Balance Sheet Date

a. On January 2, 2004, the Parent Company sold its 35% investment in MINCON with a carrying value of ₱11,067 to MMM Holdings, Inc. The sale resulted to a gain amounting to ₱15,883.

b. On February 4, 2004, the SEC approved the change in the WG & A's registered corporate name to Aboitiz Transport System (ATSC) Corporation.

c. On February 10, 2004, the BOD declared cash dividend of ₱0.10 per share from the Parent Company's dividendable retained earnings as of December 31, 1997 which has an available balance of ₱795,036 to all stockholders of record as of the close of business hours on February 23, 2004, payable on March 10, 2004.

d. LHC is a party to a dispute with a contractor regarding the delay in the completion of its Power Station. Under the Turnkey Contract, the contractor shall pay liquidated damages for each day of delay on the following day without the need of demand from LHC. LHC may, without prejudice to any other method of recovery, deduct the amount of such damages from any monies due or to become due to the contractor and/or by drawing on the irrevocable and confirmed standby letters of credit amounting to US$18 million (the Security).

   Due to the delay, LHC had drawn from the Security, liquidated damages for delay equivalent to US$18 million in 2000 and 2001. However, such drawdown was not recognized by the Parent Company as part of its share in equity in net earnings of LHC in 2000 and 2001.

   In November 2000, the contractor elevated the dispute to an Arbitration Court operating under the Rules of the International Chamber of Commerce sitting in Australia. The court addressed certain broad issues including the design and construction of headrace tunnel, extension of time, liquidated damages, and misleading and deceptive conduct.

   On February 18, 2004, the Tribunal delivered its partial award on the major liability issues. LHC was successful in certain claims arising out of the design and construction of the lined and unlined tunnel. However, the Tribunal also found that the contractor is entitled to certain money claims and a refund of liquidated damages. All other issues, including any issues as to quantum and costs, are reserved to a future award by a Tribunal. Accordingly, the financial impact of the partial and future award cannot be presently determined.

   In the opinion of management, however, the final settlement of the dispute will not have a material impact on the consolidated financial statements.

e. On February 27, 2004, a vessel with a net book value of ₱399,273 was severely damaged by fire. WG & A has not yet determined the losses that it will incur from the loss of the vessel and the liabilities for the damaged cargo and affected passengers. Management expects that it will be able to recover its losses from the insurance proceeds. As of April 2, 2004, investigation of the fire incident is on going.

29. Reclassification of Certain Accounts

Certain accounts (goodwill and property, plant and equipment amounting to ₱815,952) in the 2002 financial statements were reclassified to conform with the 2003 presentation.

30. Other Matters

a. Impact of the Recent Supreme Court Decision
   On November 15, 2002, the Third Division of the Supreme Court (SC) rendered a decision ordering Manila Electric Company (Meralco), the largest power distribution company in the country, to refund to its customers ₱0.167 per kilowatt hour starting with Meralco's billing cycles beginning February 1994 or correspondingly credit this in their favor for future consumption. The SC sustained the ERB disallowance of income tax as an operating expense, which resulted in Meralco's rate of return exceeding 12%, the maximum allowed.

   On December 5, 2002, Meralco filed a Motion for Reconsideration with the SC. The motion is based mainly on the following grounds: (1) the disallowance of income tax is contrary to jurisprudence; (2) the SC decision modifies its own decision recognizing 12% as the reasonable return a utility company is entitled to. If income tax is disallowed for rate making, the return is reduced to about 8%; and (3) even the successor of the then ERB, the ERC, adheres to the principle that income tax is part of operating expenses as set forth in the Uniform Rate Filing Requirement, which embodies the detailed guidelines to be followed with respect to the rate unbundling applications of distribution companies.

   On January 27, 2003, Meralco filed with the SC a motion seeking the referral of the cases to the SC en banc. The motion was denied by the SC in a resolution which Meralco received on March 17, 2003. Meralco filed a Motion for Reconsideration of this resolution on April 1, 2003. The motion for Reconsideration was denied by the Third Division of the SC on April 10, 2003. On April 14, 2003, Meralco filed an Urgent Motion for Consideration. On April 30, 2003, the Third Division of the SC denied the Urgent Motion for Consideration rendering its decision dated November 15, 2002 final and executory.

   The resolution of the Meralco case may affect other electric companies. Management, however, believes that the final decision of the SC on Meralco's case has no immediate impact on DLP, CLP, VECO and SFELAPCO's operations since the rates used by these subsidiaries and associates did not exceed 12%. Thus, whatever is the outcome of the final decision, management is confident that there will be no impact on the consolidated financial statements.

b. Electric Power Industry Reform Act (Act) of 2001
   Republic Act (RA) 9136 was signed in to law on June 8, 2001 and took effect on June 26, 2001. RA No. 9136 provides for the privatization of NPC and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.

   RA No. 9136 and the IRR impact the industry as a whole. Other provisions of RA No. 9136 and the IRR are: (a) distribution utilities, will provide open and nondiscriminatory access to its distribution systems within three years from the effectivity of the Act, subject to certain conditions precedent; (b) distributors shall be allowed to recover stranded contract costs, subject to review and verification by the ERC for fairness and reasonableness; (c) NPC and distributors shall have filed their proposed unbundled charges within six months from the Act's effectivity; (d) distributors shall file a Business Separation Unbundling Plan (BSUP) with the ERC by December 26, 2002; (e) residential users shall get a ₱0.30 per kwh reduction in power rates to be provided by NPC and passed on by distributors

starting August 2001; (f) the power to grant electric distribution franchises shall be vested solely in Congress, thereby repealing or amending Section 43 of Presidential Decree 269 (The National Electrification Decree); (g) NPC shall segregate its subtransmission assets for disposal to qualified distributors within two years from the effectivity of the Act; (h) NPC shall file with the ERC within six months from the effectivity of the Act the TSCs negotiated with distributors; and (i) distribution companies may engage in related business, provided up to 50% of the income from the related business shall be used to lower wheeling charges. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

The ERC has published its Guidelines on the classification of TransCo's subtransmission assets on November 5, 2003. This document identifies which subtransmission assets may be transferred by TransCo to qualified distribution utility companies.

Electric Power industry participants, including distribution utility companies, are mandated to file by the end of 2002 a BSUP for approval by the ERC, pursuant to Section 36 of RA No. 9136 requiring structural and functional unbundling of business activities of electric industry participants. The ERC, however, has extended this deadline. On January 29, 2003, the ERC released for comments the Business Separation Guidelines which provides the framework for the plans to be filed by the industry participants. The Guidelines were finalized and published by the Commission on November 20, 2003 and took effect on December 5, 2003. According to the Guidelines, distribution utility companies are required to file their proposed BSUPs on or before June 5, 2004.

On February 24, 2003, the ERC issued an Order approving the Implementing Rules and Regulations (IRR) for the new Generation Rate Adjustment Mechanism (GRAM) and the Incremental Currency Exchange Rate Adjustment (ICERA). The GRAM and ICERA are the mechanisms by which the Parent Company's subsidiaries and associates can reflect changes in the levels of the Generation Charge and the Currency Exchange Rate Adjustment (CERA). The levels of the Generation Charge and the CERA are fixed until such time that the Commission approves new levels for these following a filing by the Parent Company's subsidiaries and associates under the GRAM and ICERA. These rate adjustment mechanisms still allow the Parent Company's subsidiaries and associates to pass on to its customers changes in purchased power costs and some of the effects of the peso depreciation. The cost recovery process, however, is no longer automatic, as the ERC's approval is required on a quarterly basis resulting in a lag between the time the costs are incurred and when they may be recovered.

As of April 2, 2004, the applications for unbundling of rates of the Parent Company's subsidiaries and associates are still pending approval by the ERC, except for DLP's application which has been approved by the ERC on December 22, 2003 and VECO's application which is with a motion for reconsideration with the ERC.

c. DLP's Case

On December 7, 1990, certain customers of DLP filed a letter-petition for recovery before the ERB claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, that DLP exceeded the 12% return on rate base. ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The Court of Appeals (CA), in Court of Appeals General Register (CAGR) No. Special Proceeding (SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the ERB, expanding the computation coverage period from January 19, 1984 to September 18, 1989.

DLP strongly disputes the decision. However, whatever is the outcome of the final decision, management is confident that there are no excess profits for the period 1984-1989 and therefore, there will be no refund.

d. VECO Dispute

Branch 12 of the Regional Trial Court's Seventh Judicial Region in Cebu City served on counsel on January 9, 2004 a decision in Securities Regulation Code (SRC) Case No. 045-CEB, filed by plaintiffs (Parent Company, APC and Jon Ramon Aboitiz and Erramon Aboitiz, for themselves on behalf of Hijos).

The case filed by the plaintiffs alleged that defendants Dennis E. Garcia, Ramontito E. Garcia, Antonio Garcia de Escaño, Arlo Garcia Sarmiento, and Vivant Corporation (Vivant) misappropriated VECO shares owned by Hijos by means of a share swap executed between Hijos and Vivant last April 29, 2003. The plaintiffs had prayed for the return of the VECO shares to Hijos, some ₱613,000 in damages, and the dissolution of Hijos.

In the decision, the Court has ordered:

1. The creation of a management committee to manage Hijos
2. The return of the swapped VECO shares from Vivant back to Hijos
3. The partial liquidation (not dissolution) of Hijos

The partial liquidation is to take the form of the surrender by the Parent Company of all its shares in Hijos (which constitute 46.66% of the total Hijos shareholdings) for cancellation.

In exchange for those shares to be surrendered and cancelled, the Parent Company is to receive:

a. A distribution of 46.66% of Hijos' VECO shares (equivalent to 1,662,852 VECO shares)
b. A distribution of 46.66% of Hijos' cash and liquid assets after payment of debts
c. A 46.66% co-ownership interest in all other assets of Hijos, which shall be registered as a lien upon those assets in the books of the corporation and the government registries in favor of the Parent Company

The share capital of Hijos is to be reduced to the extent necessary.

The Court did not award any damages or make pronouncements as to costs.

In 2004, the defendants filed a motion for reconsideration with the CA.

On March 17, 2004, the Parent Company and Vivant, of which the Garcia family is the majority owner, signed a Memorandum of Agreement (MOA) for the purpose of amicably settling all existing litigation among the parties and to cooperate with respect to the management and preservation of VECO's assets, franchise and business for the benefit of all stakeholders. The MOA also aims to restore Hijos' VECO shares transferred under the share swap transaction and redistribute prorate the excess of Hijos' 25% shareholdings in VECO to its shareholders to comply with the Electric Power Industry Reform Act of 2001. The agreed redistribution under the MOA will result in the increase of the Aboitizes' direct ownership of VECO to 43%. Under the MOA, the Garcias and the Aboitizes will share in the management of VECO. The Garcias will retain control of the VECO Board. The chairmanship and the vice-chairmanship will be rotated every year. Initially, the Garcias will nominate the chairman, while the Aboitizes will nominate the vice-chairman. The Garcias will also nominate the President. On the other hand, the Aboitizes will nominate the Executive Vice-President/Chief Operating Officer who will be responsible for the operations and performance of VECO. Moreover, the BOD shall create an Executive Committee that will be composed of five members. Such committee will have two co-chairmen, with the Garcias and the Aboitizes nominating their co-chairman.

Effectivity of the MOA is subject to compliance on or before April 2, 2004 of specific conditions, which include the finalization of Shareholders Cooperation Agreements and the setting up of an escrow account that will serve to enforce certain conditions of the MOA and mutual settlement of the cases at the CA.