SEC Number	**AS093-04369**
TIN Number	**002-825-058**

BENPRES HOLDINGS CORPORATION

4th Floor, Benpres Building
Exchange Road cor. Meralco Ave.
Pasig City, Metro Manila

910 3040
(Telephone Number)

December 31
(Fiscal Year Ending)

FORM 17-A
Annual Report
(Form Type)

December 31, 2004

April 15, 2005

Securities and Exchange Commission
Money Market Operations Department
SEC Building, EDSA near Ortigas Avenue
Mandaluyong City

Attention: **Ms. Justina F. Callangan**
Director - Corporate Finance Department

Gentlemen:

Attached is the Company's annual report for the year ended December 31, 2004.

There is no other information known to management that needs to be disclosed as of the coverage date of this report. If any required information is not disclosed, it is not applicable to the Company.

We hope you find everything in order.

Thank you.

Respectfully yours,

Jorge A. LIchauco
Chief Financial Officer

SECURITIES AND EXCHANGE COMMSSION

AMENDED SEC FROM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended December 31, 2004

2. SEC Identification No. AS 093004369 3. BIR Tax Identification No. 002-825-058

4. Exact name of the registrant as specified in its charter
BENPRES HOLDINGS CORPORATION

5. Philippines
Province, Country or other jurisdiction of Incorporation or organization

6. ________ (SEC use only)
Industry Classification code:

7. 4/F Benpres Building, Meralco Ave. corner Exchange Road, Pasig City, 1600 .
Address of principal office
Postal code

8. (632) 631-3111
Registrant's telephone number, including area code

9. Not applicable
Former name, former address, and former fiscal year, if changed since last year

10. Securities registered pursuant to Sections 8 and 12 of the SRC, OR Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock	4,581,544,408 shares
Long-term Commercial Papers	P2,000,000,000

11. Are any or all of these securities listed on the Philippine Stock Exchange?

Yes [x] No [ ]

12. Check whether the registrant:

a) has filed all reports to be filed by Section 17 of the SRC and SRC 17 thereunder or Section 11 of the RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes [x] No [ ]

b) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant:

P1,481,339,671 (as of December 31, 2004)

(Note: Item No. 14 and 15 in the Form is not applicable)

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PART I – BUSINESS AND GENERAL INFORMATION

Business

The Company

Benpres Holdings Corporation (Benpres) was incorporated in 1993 by the Lopez family to serve as the holding company for investments in four major sectors: broadcasting and cable; telecommunications; power generation and distribution; and banking. It has since sold its interest in banking and added to its portfolio investments in other basic service sectors such as infrastructure, property development, information technology and health care delivery.

No new businesses were developed in the last three years.

Please refer to Exhibit 1 on page 25 summarizing the list of the subsidiaries and direct affiliates of the registrant including their principal activities, total revenues and net income.

COMMUNICATIONS

Media

In 2004, ABS-CBN Broadcasting Corporation (ABS-CBN) registered total consolidated revenues of P13.57 billion, a 7% increase from the previous year's P12.64 billion.

Consolidated net airtime and other broadcasting related revenues were flat, up by only 2% to P9.26 billion from P9.08 billion in 2003, but net sales and services, which include subscription fees for ABS-CBN Global's services, sale of inventories, and non-broadcast related revenues, increased by 21% to P4.31 billion from P3.56 billion the previous year.

Consolidated cost and operating expenses were up 16% to P12.05 billion from P10.39 billion. Total cash operating expenses increased by 19%. Production cost and cost of sales and services increased by 19% and 22%, respectively, while general and administrative costs increased by 16%, driven by personnel costs and ABS-CBN Global's expansion into new territories.

Net income was 25% lower at P758 million from P1.008 billion in 2003. Resulting net income margin stood at 6% from 8% the previous year.

Meanwhile, EBITDA, which reflects the Company's cash generating abilities, reached Php3,976 million in 2004, lower by 10% from the previous year. Consequently, EBITDA margin stood at 29% in 2004 from 35% the prior year.

Improved cash management, such as the reduction in DSO (day sales outstanding) of net trade receivables, a newly revamped program grid, and the continued robustness of ABS-CBN Global are expected to help the company weather the immensely competitive environment that lies ahead.

Cable

In July 2004, creditors of Sky Vision Corp., Central CATV Inc., and Philippine Home Cable Holdings Inc. signed a debt restructuring agreement (DRA) giving the cable operators seven years to pay for total debts of P2.5 billion pesos.

Debt restructured amounted to P1.166 billion for SKYCable and P1.350 billion for Home Cable. Beyond Cable Holdings, Inc., which houses Benpres' cable investments, also received US$30 million in fresh funds through a Note subscribed to by ABS-CBN. The Note, a noncurrent receivable of ABS-CBN, bears interest and gives the subscriber the opportunity to convert to equity at a significant discount to a third party valuation or a public offering price.

Beyond Cable implemented a 5% increase in subscription fees in 2004, to cover a new channel added to the SKYCable and Home Cable lineup.

Cable operations added 16,000 subscribers in 2004, compared to a decline of 5,000 in 2003. Subscribers to ZPDee Cable Internet increased 175% to over a thousand and overall satisfaction level for the SKYCable brand, as measured by an independent survey, improved to 71% from 55% the previous year.

As committed to creditors under the DRA, assets of Home Cable were transferred to Central CATV and Home Cable ceased operations on December 31, 2004.

Telecom

On June 28, 2004, the Pasig Regional Trial Court (RTC), Branch 158 approved the financial rehabilitation of BayanTel based on sustainable debt level of US$325 million, payable over 19 years.

The decision penned by RTC Judge Rodolfo R. Bonifacio said the remainder of BayanTel's debt may be converted to another appropriate instrument that shall not be a financial burden to the company. It also mandated BayanTel to treat all creditors equally.

Some of BayanTel's creditors, including the petitioner and majority of the secured creditors have appealed the lower court decision.

Nonetheless, BayanTel improved its profitability in 2004 by growing its business through customer focused strategies.

The company's strategy of optimizing resources through effective cost management initiatives resulted in a 53% increase in EBITDA to P2.03 billion in 2004 from P1.33 billion in 2003. Bayantel also achieved revenue growth of P418 million versus 2003 to reach to P5.36 billion. This follows a declining revenue trend that started from 2001.

BayanTel's positive performance in 2004 is driven largely by the increase in LEC (local exchange carrier) subscriber base, ramp up in DSL connections to businesses and even residential customers, increase in internet revenue, and the strong performance of international long distance. BayanTel's LEC subscribers grew 12% to 271,900 lines as of end-2004 from 243,611 lines at the end of 2003.

DSL's remarkable performance this year is mainly attributable to a combination of focused sales efforts and end-to-end process improvement in key areas such as marketing, service provisioning, product delivery or installation and after sales support. DSL lines grew 201% year-on-year (YoY).

BayanTel's position in the Internet segment improved with the integration of Sky Internet in February. Sky Internet's strong brand name, which includes the prepaid internet card, Blast, generated strong demand and resulted in robust revenue performance for Bayantel's overall internet service. Internet revenue grew 232% YoY.

POWER

In 2004, First Philippine Holdings Corporation (FPHC) posted consolidated revenues of P38.89 billion, up 3.8% from P38.42 billion the previous year. Consolidated cost and expenses for the period increased by

4.5% to P30.16 billion from P28.86 billion. Income from operations was likewise flat, up by only 1.7% to PhP9.7 billion from P9.6 billion in 2003.

FPHC generated a gain of P228 million from the sale of 1.1 million preferred shares of SiRF, a U.S.-based electronic company. However, it also booked an equity in net losses of associates in the amount of P467 million, largely as a result of provisions made by associate utility, Meralco, for probable losses should the Supreme Court rule against an increase in electricity rates.

Net income of P3.31 billion or P6.035 per share, down 14% from P3.84 billion the previous year.

Power Generation

First Gen Corporation's consolidated revenues increased slightly by 1.66% to P37.04 billion in 2004 as First Gas Power Corporation and Bauang Private Power Corporation posted increases in revenues of 5.5% and 3.5%, respectively. However, these gains were partially tempered by lower revenues at FGP Corp. in the same year due to lower plant dispatch.

First Gen's net income for the period showed a 6.91% decline to P4.96 billion. However, 2003's results included a one-time gain of P318 million from the sale of Panay Power Corporation, a 72-megawatt diesel power plant located in Southern Philippines. Netting off this one time gain, First Gen's net income in 2004 would have been largely unchanged compared to 2003.

In June 2004, First Gen won the bidding for the 1.6MW Agusan Mini-hydro under the PSALM Privatization program. First Gen took over the plant in March 2005.

Power Distribution

Meralco reported a P2.61 billion net loss in 2004, largely due to a provision for probable losses in the event of a final and executory adverse decision on a petition filed by the company before the Supreme Court. The electric utility also restated its net income for 2003 from P907 million to P1.27 billion. Operating income before provisions increased by 82.5%, from P5.57 billion to P10.18 billion, while operations and maintenance expenses decreased by 4.4%, from P10.27 billion to P9.82 billion.

Pending at the Supreme Court is a 'Petition for Review' filed by Meralco against Court of Appeals rulings that annulled and set aside the Energy Regulatory Commission's (ERC's) approval of Meralco's unbundled tariffs.

Meralco's tariffs were unbundled in June 2003, as required by the Electric Power Industry Reform Act of 2001. The unbundled rates approved by ERC resulted in a total average increase of P0.17 per kilowatt-hour (kWh) over May 2003 levels. This consists of an P0.0835 hike in generation and transmission charges and an P0.0865 rate adjustment for the company, its first since 1994.

Meralco provided for probable losses amounting to P9.82 billion, which is management's best estimate of such losses up to the end of 2004 should the High Court rule with finality against Meralco's petition.

Meanwhile, electricity sales increased 3.5% to 24,660 million kWhs on the back of a 4.8% growth in the commercial sector. Industrial sector sales grew 3.1% to 7,003 million kWhs, while sales to residential customers increased by 2.5% to 8,742 million kWhs, with a better-than-expected addition of 140,000 new customers.

Electric system performance also continued to improve, with Meralco registering 14.8% and 20.1% improvements in system reliability and availability, respectively.

INFRASTRUCTURE

Tollways

The Manila North Tollways Corporation conducted a comprehensive communications program in 2004 to generate understanding of and support for the North Luzon Expressway (NLE) project and the required adjustments in the toll rate structure. The communication program focused on the efficiency and safety provided by the new NLE to the riding public and the economic growth it will bring forth to the region.

On January 26, 2005, the NLE Phase 1 project was accepted by Norconsult, the independent certification engineer, as substantially completed through the signing of the Certificate of Substantial Completion (CSC). The CSC and Toll Operation Permit along with the initial toll rate structure were approved at the Toll Regulatory Board meeting on January 27, 2005.

Following the publication of the approved toll rates, commercial operations started on February 10, 2005. Tollways Management Corporation (TMC), the toll road operator, took over from the Philippine National Construction Corporation, for the NLE, and from the First Philippine Infrastructure Development Corporation (FPIDC), for the Subic-Tipo Road.

Water Distribution

On March 18, 2004, Maynilad Water Services, Inc. (Maynilad) and Metropolitan Waterworks and Sewerage System (MWSS) submitted a plan, contained in Amendment No. 2 to the Concession Agreement, to the Quezon City Regional Trial Court hearing Maynilad's petition for corporate rehabilitation. The compromise plan sought to replace Maynilad's November 2003 Rehabilitation Plan. It proposed the quasi-reorganization of Maynilad and debt restructuring, to pave the way for a commercially viable and stable water service. Under this compromise plan, all outstanding concession fees owed MWSS would be settled and all of Benpres's US$80-million-equity in Maynilad would be written off. In addition, the plan called for a partial draw of US$50 million on Maynilad'sUS$120-million-performance bond and the restructuring of all its debt. This plan obtained the concurrence of 73% of Maynilad's creditors.

In June 2004, MWSS withdrew its consent to Amendment No. 2 after the Supreme Court allowed MWSS to draw in full the US$120 million-performance bond. On September 9, 2004, in compliance with an August 6, 2004 Order by the Rehabilitation Court, Maynilad submitted a revised rehabilitation plan based on full draw of the performance bond.

On September 29, 2004, the Rehabilitation Court ruled that there is merit to the Petition for Rehabilitation and referred the Petition, Annexes and September 2004 Rehabilitation Plan to the Receiver for evaluation.

On December 17, 2004, MWSS sent a notice to Maynilad to draw on the US$120-million bond and a new average all-in tariff of P30.19 per cubic meter was published. On December 20, 2004, the Rehabilitation Receiver submitted its "Report and Recommendation" to the Rehabilitation Court, recommending approval of the September 2004 Rehabilitation Plan provided that Maynilad and its shareholders, the bank creditors, and MWSS execute implementing agreements on December 31, 2004. Otherwise, Maynilad should be ordered to submit a revised rehabilitation plan.

On January 1, 2005, Maynilad started implementing the rebased tariff rate of P30.19 per cubic meter. On January 14, 2005, MWSS sent a demand for the full US$120 million-performance bond. On January 20, 2005, MWSS received the entire proceeds of the US$120 million-performance bond.

Meanwhile, Maynilad and its shareholders, the bank creditors, and MWSS failed to execute the implementing agreements that would give effect to the September 2004 Rehabilitation Plan. As a consequence, the Rehabilitation Court, in a hearing conducted on January 31, 2005 on the Rehabilitation Receiver's Report and Recommendation, ordered Maynilad to submit a "Modified Rehabilitation Plan."

Maynilad failed to submit the said Modified Rehabilitation Plan on February 28, 2005. Consequently, the Rehabilitation Court gave Maynilad a non-extendible deadline of April 29, 2005 to submit the Modified Rehabillitation Plan.

Maynilad is continuing its discussions with MWSS, bank creditors and shareholders to reach an agreement on the terms of restructuring of outstanding bank loans.

OTHER INVESTMENTS

Rockwell Land Corporation

The Manansala and Joya condominium towers anchored Rockwell Land's strong performance in 2004. By yearend, the Manansala was 98% sold and accounted for P1.8 billion (67%) of consolidated revenue. The company posted a 21% revenue growth to P2.7 billion and income after tax was P245 million. EBITDA improved by 28% at P776 million.

Joya Towers and Lofts was 52% sold by December 2004. Formally opened to the market in June 2004, Joya's Loft units had achieved an 80% take-up rate in just six months.

Meanwhile, 7.7 million customers visited the Power Plant Mall, and dining outlets have become more alive with improved patronage. The Mall's aggressiveness in marketing, and in the cinema and bowling operations in particular, contributed revenues of P596 million, posting the highest growth of 13%. Tenant sales increased by 5% as the mall operation continued to boom despite growing competition.

Rockwell was able to refinance P470 million of its P2 billion-Long Term Commercial Papers over four years. It raised a P1 billion 2-year Contract-to-Sell (CTS) loan facility to finance Manansala's project funding requirements. Debt reached P2.4 billion with the Manansala project loan drawdown.

At yearend, Rockwell had P10.5 billion in assets—P358 million of that in cash, P2.2 billion in receivables—and land bank of P2.4 billion. Bank debt-to-equity remained at a comfortable ratio of 0.39:1.

Mall occupancy is expected to reach 98% toward the second half of 2005 as it welcomes flagship retailers. With the last unit of Manansala sold in February 2005 and Joya projected to be 90% sold by yearend, 2005 is anticipated to be even better for Rockwell.

Professional Services, Inc. (The Medical City)

The Medical City moved to its new facility on Meralco-donated property on June 10, 2004. Profits fell by 61% to P80.2 million from P205.4 million in 2003, as general and administrative expenses rose 25% while gross profit improved by only 10%.The Medical City also booked interest expense in the amount of P121.9 million in 2004, compared to none in 2003, as total current liabilities increased by 67%. New loans were primarily used to purchase various medical equipment and partly to finance the construction of the new facility.

CORPORATE SOCIAL RESPONSIBILITY

ABS-CBN Foundation, Inc. and ABS-CBN Bayan Foundation

ABS-CBN Foundation, Inc. (AFI) and ABS-CBN Bayan Foundation continued to make a positive impact on the lives of Filipinos in 2004.

AFI's Bantay Bata 163 rescued an average of seven children per month all of whom were provided shelter at the Children's Village, which now houses 115 children. Medical assistance was provided to 1,102 children in 2004 bringing the total number of medically-assisted from 1997 to 7,657 as of end-2004.

Bantay Kalikasan successfully reforested 1,500 hectares of the La Mesa Watershed, exceeding its target of 1,200 set in 1999. The Quezon City government turned over operations of the La Mesa Ecological Park to Bantay Kalikasan in September 2004. Bantay Usok has taken 18,704 vehicles off the road since it began in 2002. Bantay Baterya generated P2.28 million from 362 tons of used lead-acid batteries collected from 38 companies.

ETV (Educational Television) under E-Media continued to widen its reach, as 833 additional schools received ETV infrastructure in 2004. ETV-produced shows *Mathtinik, Hirayamanawari, Sine'skwela, Epol/Apple* and *Bayani* received the Anak TV Seal from the Southeast Asian Foundation for Children's Television and certain episodes of the shows received awards from the Basel-Karlsruhe Festival (Switzerland), 21st International Science Program Festival (France), Catholic Mass Media Awards and Prix Jeunesse International (Germany).

ABS-CBN Foundation Volunteers were busy year-round, responding to 25 disasters through Sagip Kababayan and 4 disasters through Sagip Kapamilya. Disaster Relief through Sagip Kababayan served 19,067 families and distributed P2.2 million worth of relief assistance while that through Sagip Kapamilya, as of January 19, 2005 served 75,798 families and distributed P44.6 million of donated goods.

ABS-CBN Bayan Foundation expanded the coverage of its microfinance programs, reaching 164 municipalities in 2004, compared to 113 in 2003. Cumulative loans disbursed amounted to P2.14 billion as of end-2004. The number of active clients reached 38,422, 92% of them women. Repayment rate as of December 2004 was at 96.13% compared to 96.87 as of end-2003.

Knowledge Channel Foundation

Knowledge Channel Foundation launched a text-based fundraising campaign in 2004, in support of its Cable-A-School program. It also held a walk-for-a-cause, Lakad Mo, Pangarap Ko, that raised P5.8 million for its various initiatives in education. Its Knowledge Caravan, an interactive play and learn exhibit in selected malls brought fun and learning closer to the general public, with the help of sponsors. Over 32,000 visitors graced six Knowledge Caravans held throughout the year.

In cooperation with the National Commission for Culture and the Arts and AFI, Knowledge Channel Foundation has produced 32 episodes of Pamana, a Filipino heritage and culture series for Makabayan Grade 3, and and 36 episodes of Kasaysayan TV (KTV), a Philippine History series for Makabayan High School 1. These have a strong Filipino character and identity necessary to complete the Department of Education core social science subject, Makabayan.

Since 1999, Knowledge Channel Foundation has conducted 65 Teacher Training modules involving 6,136 participants, 81 Principals Orientation seminars for 7,526 participants. As of end-2004, its curriculum-based programs reached an audience of 2.516 million students in 1,400 schools nationwide.

<u>Competition</u>
Benpres is the only large publicly-listed conglomerate which focuses on utilities and basic infrastructure. Its operating companies are among the leaders in their respective industries. Its water and toll road businesses are based on concession agreements and are virtual monopolies in their areas of operation.

ABS-CBN competes with other radio-TV broadcasting companies. FPHC's power generation business competes with other independent power producers.

<u>Customers</u>
Benpres has a broad customer base for its core businesses in communications and utilities. Major customers for FPHC's generation concerns are the National Power Corporation and Meralco. Rockwell caters to the high-end property market.

Sources and availability of raw materials and names of suppliers
Not Applicable.

Employees
Benpres had 18 full-time employees as of December 31, 2004. On a consolidated basis, the average number of employees and talents of the Company totals 2,418 for historical and 8,979 for pro forma financial statements.

Agreements of labor contracts, including duration
ABS-CBN management recognizes two labor unions, one for the supervisory level and the other one for the rank and file. The collective bargaining agreement (CBA) for the supervisory union expired on 1 August 2003 while the CBA with the non-supervisory union expired on 11 December 2002.

Patents, trademarks, licenses, franchises, concessions, royalty
Republic Act No. 7966, approved on March 30, 1995 granted ABS-CBN the franchise to operate TV and radio broadcasting stations in the Philippines through microwave, satellite or whatever means including the use of new technologies in television and radio systems. ABS-CBN is required to secure from the NTC appropriate permits and licenses for its stations and any frequency in the TV or radio spectrum. The franchise is for a term of 25 years.

Working Capital
As a holding company, Benpres is involved in project financing. It did not conduct any major fund-raising exercises in the last three years.

Effect of Existing or Probable Government Regulations in the Business
The Electricity Power Industry Reform Act of 2001 (EPIRA) was enacted. FPHC, First Gen and Meralco, which represent interests in power generation and distribution are expected to comply with the requirements of the law toward a deregulated industry.

Estimate of the amount spent for research and development activities (3 years)
Not Applicable. The Company is not engaged in research and development-intensive business.

Costs and Effects of Compliance with Environmental Laws
All operating businesses are compliant with or are in the process of complying with environmental laws. The costs of compliance with these laws are effectively taken into account in their existing cost structure of the respective businesses.

Properties

Benpres owns the third and fourth floors and the roof deck of the PCCI Corporate Center located in Makati City. The following operating companies also own properties: ABS-CBN (for head office and subsidiary offices in Quezon City, TV and/or radio originating stations in Bacolod City, Cebu City, Davao City, Dagupan City, Naga City, Legaspi City, Zamboanga and General Santos); BayanTel (for exchange offices and transmission nodes in Quezon City and Valenzuela, provincial units in Naga, Legaspi, Tacloban, Cebu and Butuan); FPHC (for Philippine Electric Corp. in Rizal, First Sumiden Realty in Laguna, First Philippine Industrial Corp. in Batangas and Panay Power Corp. in Iloilo City); Maynilad (for commercial and technical operations in Quezon City, Manila and Cavite); FPIDC (for quality control laboratory in Bataan); Rockwell Land (for development); and The Medical City (for hospital and medical service delivery in Mandaluyong).

Facilities owned by the operating companies are generally in good condition. There are certain limitations on ownership with regards to certain affiliates' properties i.e., under the terms of agreements covering the liabilities under trust receipts of BayanTel in 1998, certain properties and equipment used in operations have been released to BayanTel in trust for the banks. The trusteed property and equipment will be returned to the banks in case of non-payment of the liabilities at maturity date. The Medical City's parcel of land is used to secure its long-term debt.

Benpres has no intention nor expect to acquire properties in the next twelve (12) months. Please also refer to Notes 10 and 16 of the Consolidated Financial Statements attached and incorporated herein by reference.

Legal Proceedings

A civil suit for damages alleging violations of the U.S. federal securities law and New York state law was filed on December 19, 2002 by AIG Asian Infrastructure Fund (AIG), L.P. against Benpres, BayanTel, certain of their officers and directors with a U.S. federal trial court in New York City.

The complaint alleges that the defendants, including the placement agent in the sale of the convertible preferred shares of BayanTel, failed to disclose to AIG at the time it purchased such shares that certain institutional stockholders of BayanTel had a pre-existing put right to Benpres of their common shares in BayanTel. On August 18, 2003, AIG filed a motion to dismiss, with prejudice, the civil suit against the Company, BayanTel and the officers and directors.

AIG also filed a motion for summary judgment in lieu of a complaint with the New York state court against Benpres and BayanTel for the payment of the amount of US$44 million under the convertible preferred shares issued by BayanTel and guaranteed by Benpres. Benpres and BayanTel filed a motion to dismiss which is still pending resolution. On May 26, 2004, the New York State court denied the motion for summary judgment in lieu of complaint and dismissed the matter. The Company is not aware of any further actions made by AIG since then.

ABS-CBN is party to various legal actions, including claims from separated employees for illegal dismissal and counter-claims for specific performance and damages. In the opinion of management, the ultimate liability, if any, resulting from these matters will not have a material effect on ABS-CBN's consolidated financial position. The significance of these matters on ABS-CBN's future operating results depend on ABS-CBN's level of future earnings as well as the timing and the amount of the ultimate disposition of these matters above the amounts covered by insurance.

Commitments and Contingencies of Benpres, subsidiaries and associates are described in Notes 26 and 27 of the Consolidated Financial Statements, attached and incorporated herein by reference.

Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Market for Registrant's Common Equity and Related Stockholder Matters

<u>Market Information</u>

Benpres common stock principally trades on the Philippine Stock Exchange.

	Stock Prices	
	High	Low
2005		
First Quarter	P1.42	P0.67
2004		
First Quarter	P0.76	P0.48

Second Quarter	0.65	0.49
Third Quarter	0.62	0.48
Fourth Quarter	0.73	0.53
2003		
First Quarter	P0.31	P0.11
Second Quarter	0.60	0.185
Third Quarter	0.85	0.54
Fourth Quarter	0.64	0.43
2002		
First Quarter	P0.96	P0.51
Second Quarter	0.81	0.35
Third Quarter	0.38	0.22
Fourth Quarter	0.24	0.0825

Shareholder Information

The number of shareholders of record as of December 31, 2004 was 13,430. Common shares outstanding as of December 31, 2004 were 4,581,544,408.

Top 20 stockholders as of December 31, 2004:

	Names	**No. of Shares**	**%**
1	Lopez, Inc.	2,397,238,126	52.32%
2	PCD Nominee Corp.	1,322,082,570	28.86%
3	PCD Nominee Corp.	132,527,860	2.89%
4	Florante G. Aguila &/or Andresito &/or Jose Vicente Aguila	90,000,000	1.96%
5	Crème Investment Corporation	45,295,944	0.99%
6	Presta Holdings Corporation	45,159,819	0.99%
7	Mantes Corporation	45,159,819	0.99%
8	Croslo Holdings Corporation	45,159,819	0.99%
9	Teresita A. Dela Cruz	33,995,000	0.74%
10	Narcisa Ngo	31,004,000	0.68%
11	MJL Agro Development Corp.	25,432,121	0.56%
12	Gilbert Martires	16,100,000	0.35%
13	Manuel M. Lopez &/or Ma. Teresa Lopez	10,985,000	0.24%
14	Oscar M. Lopez	8,597,182	0.19%
15	Angel Tan	8,000,000	0.17%
16	Lucio Yan	7,450,000	0.16%
17	Siao Tick Chong	7,128,500	0.16%
18	Manuel M. Lopez	7,089,114	0.15%
19	Carlos Ching	7,000,000	0.15%
20	Alan L. Montelibano	6,629,604	0.14%

Dividend Information

The Company is authorized to pay dividends on the shares in cash, in additional shares, in kind, or in a combination of the foregoing. Dividends paid in cash are subject to approval by the Board and no stockholder approval is required. Dividends paid in the form of additional shares are subject to approval by the Board and holders of at least two-thirds of the outstanding capital stock of the Company. Holders of outstanding Shares on a dividend record date for such Shares will be entitled to the full dividend declared without regard to any subsequent transfer of such Shares.

There were no dividends declared for years 2004, 2003 and 2002.

There were no restrictions that limit the ability to pay dividends on common equity.

There were no sales of unregistered securities.

Management Discussion and Analysis of Results of Operations and Financial Condition

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company that is incorporated to this Annual Report by reference. Such Consolidated Financial Statements have been prepared in accordance with Philippine GAAP.

Results of Operations of Benpres Holdings Corporation (Benpres) and its Subsidiaries for the year ended December 31, 2004 compared with December 31, 2003

<u>Benpres</u>
Benpres registered consolidated revenues of P3.905 billion in 2004, 22% lower than the P5.006 billion posted in 2003. There was a 46% decline in Foreign Currency Differential Adjustment (FCDA) due to a reclassification of Maynilad charges. The sale of Customer Contact Center, Inc. in July 2003 resulted in the zeroing out of sales and services in 2004.

Provisions for the decline in the value of investments at equity and advances went down by 80% as the 2003 provisions of P1.6 billion included investments in both Maynilad and BayanTel. The provision for losses of P320 million in 2004 was only for the foreign exchange effect on estimated liabilities from guarantees and commitments. No additional provisioning was made in 2004 as the remaining recoverable value of investment in BayanTel remains at P1.669 billion. Contracted services decreased by 75%, accounting for 88% of the P846 million contraction in general and administrative expenses.

In 2004, equity in net earnings of associates also declined by 19% due to the decrease in net income of FPHC. Accretion of earnings on Notes increased to P173 million from P33 million due to an improvement in Beyond Cable's net income.

Interest and financing charges increased by 63% representing penalty charges due to default in the payment of outstanding debt. The deterioration in the peso-dollar rate from P55.438 in December 2003 to P56.28 in December 2004 also resulted in an increase in the peso value dollar-denominated debt.

All of the above foregoing factors contributed to a decrease in net loss by 28% at P1.364 billion versus P1.905 billion the previous year.

<u>Associates</u>
ABS-CBN registered total consolidated revenues of P13.57 billion, a 7% increase from the previous year's P12.64 billion. Consolidated cost and operating expenses were up 16% to P12.05 billion from P10.39 billion. Total cash operating expenses increased by 19%. Production cost and cost of sales and services increased by 19% and 22%, respectively, while general and administrative costs increased by 16%, driven by personnel costs and ABS-CBN Global's expansion into new territories. Net income was 25% lower at P758 million from P1.008 billion in 2003. Resulting net income margin stood at 6% from 8% the previous year.

FPHC posted consolidated revenues of P38.89 billion, up 3.8% from P38.42 billion the previous year. Consolidated cost and expenses for the period increased by 4.5% to P30.16 billion from P28.86 billion. Income from operations was likewise flat, up by only 1.7% to PhP9.7 billion from P9.6 billion in 2003. FPHC booked an equity in net losses of associates in the amount of P467 million, largely as a result of provisions made by associate utility, Meralco, for probable losses should the Supreme Court rule against an increase in electricity rates. Net income of P3.31 billion or P6.035 per share, down 14% from P3.84 billion the previous year.

On September 9, 2004, in compliance with an August 6, 2004 Order by the Rehabilitation Court, Maynilad submitted a revised rehabilitation plan based on full draw of its US$120 million-performance bond. On September 29, 2004, the Rehabilitation Court ruled that there is merit to the Petition for Rehabilitation and referred the Petition, Annexes and September 2004 Rehabilitation Plan to the Receiver for evaluation. On December 17, 2004, MWSS sent a notice to Maynilad to draw on the US$120-million bond and a new average all-in tariff of P30.19 per cubic meter was published. On December 20, 2004, the Rehabilitation Receiver submitted its “Report and Recommendation” to the Rehabilitation Court, recommending approval of the September 2004 Rehabilitation Plan provided that Maynilad and its shareholders, the bank creditors, and MWSS execute implementing agreements on December 31, 2004. Otherwise, Maynilad should be ordered to submit a revised rehabilitation plan.

On January 1, 2005, Maynilad started implementing the rebased tariff rate of P30.19 per cubic meter. On January 14, 2005, MWSS sent a demand for the full US$120 million-performance bond. On January 20, 2005, MWSS received the entire proceeds of the US$120 million-performance bond. Meanwhile, Maynilad and its shareholders, the bank creditors, and MWSS failed to execute the implementing agreements that would give effect to the September 2004 Rehabilitation Plan. As a consequence, the Rehabilitation Court, in a hearing conducted on January 31, 2005 on the Rehabilitation Receiver’s Report and Recommendation, ordered Maynilad to submit a “Modified Rehabilitation Plan.”
Maynilad is continuing its discussions with MWSS, bank creditors and shareholders to reach an agreement on the terms of restructuring of outstanding bank loans.

The Manila North Tollways Corporation conducted a comprehensive communications program in 2004 to gain public acceptance of the new toll rates. The North Luzon Expressway project was completed within the timetable (February 2005) set with Leighton Contractors (Asia) Limited, the contractor, and five months ahead of the July 2005 deadline set under the agreement with the government.

On June 28, 2004, the Pasig Regional Trial Court (RTC), Branch 158 approved the financial rehabilitation of BayanTel based on sustainable debt level of US$325 million, payable over 19 years. The decision penned by RTC Judge Rodolfo R. Bonifacio said the remainder of BayanTel’s debt may be converted to another appropriate instrument that shall not be a financial burden to the company. It also mandated BayanTel to treat all creditors equally. Some of BayanTel’s creditors including the petitioner and majority of its secured creditors have appealed the lower court decision.

In July 2004, creditors of Sky Vision Corp., Central CATV Inc., and Philippine Home Cable Holdings Inc. signed a debt restructuring agreement (DRA) giving the cable operators seven years to pay for total debts of P2.5 billion pesos. Debt restructured amounted to P1.166 billion for SKYCable and P1.350 billion for Home Cable. Beyond Cable Holdings, Inc., which houses Benpres’s cable investments, also received US$30 million in fresh funds through a Note subscribed to by ABS-CBN. The Note, a non-current receivable of ABS-CBN, bears interest and gives the subscriber the opportunity to convert to equity at a significant discount to a third party valuation or a public offering price.

The Manansala and Joya condominium towers anchored Rockwell Land's strong performance in 2004. By yearend, the Manansala was 98% sold and accounted for P1.8 billion (67%) of consolidated revenue. The company posted a 21% revenue growth to P2.7 billion and income after tax was P245 million. EBITDA improved by 28% at P776 million.

<u>Liquidity and Capital Resources of Benpres (Parent Company Only) for the year ended December 31, 2004 compared with December 31, 2003</u>

As of December 31, 2004, the company’s total assets stood at P30.195 billion, 4% higher than total assets as of end-2003 of P29.010 billion.

Cash and cash equivalents decreased by 15% to P879 million from P1.040 billion, after voluntary prepayments were made based on its proposed Balance Sheet Management Plan (BSMP).

In 2004, Benpres voluntarily made payments on its direct and contingent obligations that are covered in the BSMP (excluding contingent obligations in Maynilad which the latter continues to service). Pending agreement with its creditors on the BSMP, the company offered to make payments semi-annually based on the following rates:

(a) At LIBOR plus a spread of 1.0% on all of its US dollar obligations; and
(b) At the 182-day Philippine Treasury Bill rate plus a spread of 1.0% on all of its peso obligations.

As of December 31, 2004, Benpres had US$478 million and PhP3,422 million in direct and contingent obligations, as shown below:

	At Dec 31, 2004		At Dec 31, 2003	
(In Millions)	PhP	US$	PhP	US$
Direct Obligations				
Long-term Commercial Papers (LTCP)	2,000.0		2,000.0	
Eurobond 7.875% Notes		150.0		150.0
Contingent Obligations				
Maynilad Water	1,421.8	118.1	1,421.8	118.1
BayanTel		210.0		210.0

These direct and contingent obligations were unchanged from their balances as of December 31, 2003.

Results of Operations of Benpres Holdings Corporation (Benpres) and its Subsidiaries for the year ended December 31, 2003 compared with December 31, 2002

<u>Benpres</u>

Benpres posted consolidated revenues of PhP5,213 million in 2003, 8% lower than the 2002 re-stated consolidated revenues of PhP5,698 million. Net loss decreased 52% to PhP1,907 million from the re-stated net loss of PhP4,000 million the previous year. The restatement of 2002 revenues and earnings was done to reflect the adoption of New Statement of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS), including the effect of the FPHC's restatement of 2002 financial results stemming from the Meralco refund.

<u>Associates</u>

ABS-CBN's consolidated airtime and broadcasting revenues increased 12% to PhP11,064 million from PhP9,914 million. Consolidated costs and operating expenses grew 12% to PhP10,401 million from PhP9,276 million. Net income before discontinuing operations amounted to PhP1,011 million, which was 131% higher than the PhP438 million in 2002. In 2003, losses from discontinued operations amounting to PhP2 million was due to the sale of assets from the winding down of the various subsidiaries that were discontinued in the previous year. Net income after discontinuing operations surged by more than 500% to Php1,009 million from PhP166 million in 2002.

FPHC's 2003 consolidated net income amounted to PhP3.8 billion. This is higher by 226% from the PhP3.0 billion restated net loss in 2002. Share in net earnings of associates increased by 148% to PhP617 million in 2003 from the PhP1.3 billion loss in 2002. Share in extraordinary loss of an associate decreased by PhP4.5 billion. Share in net earnings of associates in 2002 was negatively impacted by the Supreme Court's (SC) decision on Meralco's refund issue. Meralco restated its 2002 financial statements to recognize the loss from the refund arising from the SC decision. This necessitated the restatement of First Holdings Group's 2002 financial statements reflecting FPHC Group's PhP4.5 billion share in extraordinary loss and PhP0.5 billion share in net loss of associates. In addition, the FPHC Group disposed of its 60.29% effective interest in the common shares of Panay Power Corporation (PPC).

On November 13, 2003, Maynilad Water Services Inc. (Maynilad) filed a petition for Corporate Rehabilitation with the Regional Trial Court of Quezon City. Maynilad sought court protection to enable the company to settle its contractual obligations in due time, sustain the gains of privatization and protect the public interest in the West concession. On March 18, 2004, Maynilad and MWSS submitted a new plan, contained in Amendment No. 2 to the Concession Agreement, to the Quezon City RTC. The compromise plan, undertaken in compliance with the Arbitration Panel's recommendation for both parties to find "extra-judicial solutions" to their problems, seeks to replace Maynilad's Rehabilitation Plan. It proposes the quasi-reorganization of Maynilad and debt restructuring, to pave the way for a commercially viable and stable water service. The compromise plan ensures the settlement of all outstanding concession fees owed MWSS and the complete write-off of all of Benpres's US$80-million-equity in Maynilad. In addition, the plan calls for a partial draw of US$50 million on Maynilad'sUS$120-million-performance bond and the restructuring of all its debt.

The new North Luzon Expressway (NLE) is more than 60% completed and motorists can expect to enjoy its full use by the end of 2004. Out of the total 437 lane-kilometers to be constructed or rehabilitated, 74 lane-kilometers are now in use.

On 8 August 2003, the Pasig Regional Trial Court (RTC) Branch 158 issued a Stay Order based on a petition for corporate rehabilitation filed by the Bank of New York upon the instruction of certain bondholders of Bayan Telecommunications, Inc. (BayanTel). A receiver, Atty. Remigio Noval of KPMG, was appointed by the Court to evaluate the rehabilitation plan and submit his recommendations to the Court. The company prepared its own rehabilitation plan in consultation with other creditors and stakeholders. This plan was submitted on January 20, 2004.

In 2003, creditors of Sky Vision Corporation, Central CATV Inc., and Philippine Home Cable Holdings Inc. signed a Memorandum of Agreement to restructure the cable operators' debt obligations and grant their consent to the proposed consolidation of the ownership of the Benpres and PLDT groups in these entities. The MOA, providing the general terms and conditions of a restructuring plan, shall be the basis for a debt restructuring agreement expected to be completed within 2004. The total outstanding principal obligations of the three entities stand at P2.517 billion pesos: P1.35 billion pesos for Home Cable, P120.7 million pesos for Sky Vision and P1.166 billion pesos for Central CATV.

Rockwell Land Corporation (Rockwell Land) had a robust performance in 2003 with P2.2 billion in revenues, a 129% increase over the previous year's P1 billion. Net income at P150 million was a 127% increase over the P558 million net loss in 2002.

On July 30, 2003, Benpres sold its 100% equity stake in Customer Contact Center, Inc. (C-Cubed). C-Cubed, a 450 seat-call center, serves primarily the growing international business process outsourcing market and is considered a pioneer in the local contact center industry.

<u>Liquidity and Capital Resources of Benpres (Parent Company Only) for the year ended December 31, 2003 compared with December 31, 2002</u>

As of December 31, 2003, the company's total assets stood at PhP28,896 million. Total assets as of end-2002 were restated to PhP25,295 million to reflect the company's adoption of SFAS/IAS 37. The restatement takes into account among others, the expensing of foreign exchange losses in FPHC and preoperating expenses in Maynilad previously capitalized.

Cash and cash equivalents decreased to PhP1,040 million from PhP1,417 million, following voluntary prepayments based on its proposed Balance Sheet Management Plan (BSMP).

In 2003, Benpres voluntarily made payments on its direct and contingent obligations that are subject of the BSMP (excluding contingent obligations arising from Maynilad which the latter continues to service). Pending an agreement with its creditors on the BSMP, the company has offered to make payments semi-annually based on the following rates:

(a) At LIBOR plus a spread of 1.0% on all of its US dollar obligations; and

(b) At the 182-day Philippine Treasury Bill rate plus a spread of 1.0% on all of its peso obligations.

On January 8, 2003, Benpres failed to settle US$165 million in obligations arising from its suretyship over convertible preferred shares issued by Bayan Telecommunications Holdings Corporation (BTHC). The BTHC-related obligations arising from the AIF and Chase put options and the BTHC convertible preferred shares totalling US$216 million are included in the negotiations with creditors under Benpres' BSMP. As of December 31, 2003, Benpres had US$478 million and PhP3,422 million in direct and contingent obligations, detailed below, all of which are subject of the BSMP.

	At Dec 31, 2002		At Dec 31, 2003	
(In Millions)	PhP	US$	PhP	US$
Direct Obligations				
Long-term Commercial Papers (LTCP)	2,000.0		2,000.0	
Eurobond 7.875% Notes		150.0		150.0
Contingent Obligations				
Maynilad Water	1,713.0	126.0	1,421.8	118.1
MNTC	505.0	16.0	0	0
BayanTel		215.9		210.0

These direct and contingent obligations were reduced from their balances as of December 31, 2002 due to repayment by Maynilad of some of its obligations guaranteed by Benpres. In February 2003, MNTC likewise settled its bridge loans and other guaranteed obligations via drawdown on its project financing, thereby eliminating PhP505 million and US$16 million of Benpres contingent obligations.

Year Ended 31st December 2002 Compared WITH YEAR ENDED 31ST DECEMBER 2001 as AUDITED
(NOTE: For a discussion of the restatement of 2002 financial results, see Note 3 of Notes to the 2003 Financial Statements)

Benpres
Benpres posted consolidated revenues of PhP2,019 million in 2002, registering 14% growth from the year-ago level of PhP1,778 million. Although the corporation did not post any gain on sale of investments in 2002, this was offset by stronger net earnings of investee companies, particularly First Philippine Holdings Corporation (FPHC) and ABS-CBN Broadcasting Corporation (ABS-CBN). Consolidated costs and expenses fell from PhP11,773 million in 2001 to PhP3,194 million in 2002 due to provision for estimated liabilities from guarantee and commitments amounting to PhP6,358 million which were recognized in 2001. The corporation's net loss was likewise reduced to PhP1,064 million in 2002 from PhP9,993 million in 2001.

Subsidiaries
In spite of head-to-head competition, ABS-CBN managed to maintain its lead over rival GMA-7. However, consolidated airtime and broadcasting revenues remained flat at PhP9,923 million as the advertising market remained soft in the first half of 2002 and the company stopped airing advertisements sponsored by the government. However, revenues from affiliated businesses grew in 2002, mainly due to the continuing expansion of ABS-CBN Global to foreign markets. However, intense competition domestically drove operating expenses 18% higher in 2002 as the company increased the amount of original programming instead of increasing its replay pattern as is customary in a weak advertising market. Depreciation and amortization expenses also increased with the full-year impact of new broadcast facilities at the Eugenio Lopez Jr. Communications Center. As a result, ABS-CBN's net earnings fell 88% to PhP166 million. This figure is net of PhP272 million in non-recurring charges which the company recognized as it wrote off investments in subsidiaries that ceased operations in 2002. On September 2, 2002, ABS-CBN successfully converted a substantial majority of its short-term loans into a long-term secured facility maturing in 2007. Of the two creditors that did not participate in the term-out,

one has since decided to join while a replacement funder is being sought for the other. ABS-CBN's outstanding loans with these two creditors are equivalent to only 1% of its total assets.

FPHC's 2002 consolidated net income amounted to PhP1,958 million, a 49% reduction versus the previous year. In 2001, FPHC booked a one-time gain on dilution of equity interest amounting to PhP1,365 million arising from the purchase by AIDEC FG Power Corporation and the Sumitomo Corporation of newly issued shares in First Generation Holdings Corporation (FirstGen), a subsidiary of FPHC. FPHC's net income, retained earnings and stockholders' equity for 2002 would have decreased by a further PhP5.0 billion had its affiliate Manila Electric Company (Meralco) provided for estimated losses resulting from a Supreme Court decision ordering Meralco to refund its customers PhP0.617 per kilowatt-hour. In spite of the one-time gain on dilution of equity interest booked in 2001, FPHC's 2002 consolidated revenues increased by 32% compared to year-ago levels as revenues from the sale of electricity rose by PhP8,111 million. This increase in the sale of electricity was due to the improvement in the dispatch of FirstGen's Sta. Rita gas-power plant averaging 60% to 65% in 2002 from only 12% in 2001 as well as the start of commercial operations of FirstGen's San Lorenzo plant in October 2002.

On December 9, 2002, Maynilad Water Services Inc. (Maynilad) issued a Notice of Early Termination notifying the Metropolitan Waterworks and Sewerage System (MWSS) of Maynilad's intent to terminate the concession effective 60 days from the date of the notice on the grounds that MWSS had committed serious breaches of its obligations under the Concession Agreement. The termination of the concessions entitles Maynilad to an Early Termination Amount. However, the MWSS has challenged Maynilad's right to terminate the concession and disputes that Maynilad is entitled to an Early Termination Amount. An Arbitration Panel has been constituted to rule on this issue.

Having satisfied the various conditions precedent to drawdown, the Manila North Tollways Corporation (MNTC) drew in early February 2003 US$83 million of the US$261 million facility approved by a syndicate of foreign lenders on July 7, 2001. The proceeds were immediately applied towards the rehabilitation of the Manila North Expressway, which is expected to be completed in early 2005. The successful drawdown by MNTC resulted in the settlement of PhP525 million and US$15 million in obligations which were guaranteed by Benpres, thereby reducing Benpres' contingent obligations by the same amounts.

With the success of its Bayan399 program, Bayan Telecommunications Inc. (BTI) reversed the decline in its fixed line subscribers in the fourth quarter of 2002. It ended the year with 188,346 subscribed lines. Meanwhile, the company's data business continued to thrive, with total data and IP circuits growing from 17,000 at the end of 2001 to 39,528 at the end of 2002. BTI's parent company, Bayan Telecommunications Holding Corporation (BTHC), posted consolidated revenues of PhP4,895 million and a net loss of PhP5,335 million. BTI continues to accrue interest expenses at the contracted rates while its restructuring negotiations on US$417 million and PhP2,990 million of debts are ongoing. The company has proposed a restructuring of these debts into a US$275 million interest-bearing and amortizing redeemable note maturing in nine years (representing the sustainable portion of its debts) and the balance into a zero-coupon note convertible into equity in BTI. In late 2002, BTI's secured creditors responded by submitting a term sheet containing the restructuring terms they were prepared to accept. These terms are currently being negotiated with the company's unsecured creditors. On May 1, 2002, BTI appointed CLSA as its financial advisor for the restructuring, replacing Bank of America.

Sky Vision Corporation (Sky) and The Philippine Home Cable Holdings Inc. (Home) continue to negotiate with their respective creditors on the restructuring of PhP2,517 million of secured and unsecured debts as well as seek creditors' consent to the pending consolidation of both entities under Beyond Cable Holdings Inc. as envisioned in the Master Consolidation Agreement signed by Benpres, Lopez Inc., ABS-CBN, the Philippine Long Distance Telephone Company, and Mediaquest Holdings Inc. on July 18, 2001. On January 29, 2003, Sky and Home jointly appointed Buenaventura Echauz and Partners as financial advisor for the restructuring, replacing a consortium of local firms earlier appointed for the role. In 2002, Sky and Home successfully concluded negotiations to reinstate carriage of certain cable TV channels of Hong Kong-based STAR TV. The new long-term carriage agreement with STAR strengthens the two companies' program offerings and enhances their competitive advantage against rival operators.

In May 2002, Rockwell Land Corporation began construction of its latest residential development, The Manansala. It has since pre-sold more than 70% of the available units. As of this writing, the substructure has been completed while the contract for the superstructure has been awarded. Construction is expected to be fully completed in mid-2005. RLC's revenues for 2002 reached PhP1.1 billion; however, it incurred a net loss of PhP481.3 million for the same period.

Customer Contact Center Inc. (C-Cubed) became profitable in the last quarter of 2002. Its partnership with Source One brought in many new international customers, including Chevron and Sony. At the end of 2002, the company utilized 361 seats and 585 full-time equivalent agents.

The GPS-based vehicle tracking system of Webcast Technologies, the company acquired by BayanMap in 2001, continues to gain acceptance as an effective fleet management tool and security device. It is now required by a large cement manufacturer for its haulers and is also a standard accessory for the high-end SUV model of a leading car manufacturer. Meanwhile, BayanMap has focused on selling applications of its digital maps to its traditional internal Lopez group clients as well as to local government entities who find that GPS/GIS mapping competencies can enhance management of their municipalities.

<u>Liquidity and Capital Resources of Benpres (Parent Company Only) for the year ended December 31, 2002 compared with December 31, 2001</u>

As of December 31, 2002, the company's total assets stood at PhP48,490 million. Cash and cash equivalents stood at PhP1,859 million as of December 31, 2002, having increased from PhP629 million as of the end of 2001 due partly to the redemption in August 2002 of the convertible note issued by FPHC.

Benpres defaulted on an interest payment due on June 19, 2002 and on interest and principal payments due on December 19, 2002 related to its US$150 million Eurobond 7.875% Notes listed on the Luxembourg Stock Exchange, which matured on the latter date.

On October 24, 2002, the Asian Infrastructure Fund (AIF) and Chase Manhattan Overseas Banking Corporation (Chase) exercised a put option over their shares in BTHC. Under the put option, AIF and Chase have the right to require Benpres to buy back their BTHC shares at cost plus accrued interest. Benpres has recognized that US$44 million is owed to AIF and US$6 million to Chase in exchange for their respective shares in BTHC. However, both AIF and Chase have indicated that larger amounts are owed to them.

A civil suit for damages alleging violations of the U.S. federal securities law and New York state law was filed on December 19, 2002 by AIG Asian Infrastructure Fund (AIG), L.P. against Benpres, BTHC, and certain of their officers and directors with a U.S. federal trial court in New York City. The complaint alleges that the defendants, including the placement agent in the sale of the convertible preferred shares of BTHC, failed to disclose to AIG at the time it purchased such shares that certain institutional stockholders of BTHC had a pre-existing put right to Benpres of their common shares in BTHC.

AIG also filed a motion for summary judgment in lieu of a complaint with the New York state court against Benpres and BTHC for the payment of the amount of US$44 million under the convertible preferred shares issued by BTHC and guaranteed by Benpres. Benpres and BTHC filed a motion to dismiss which is still pending resolution.

On January 8, 2003, Benpres failed to settle US$165 million in obligations arising from its suretyship over convertible preferred shares issued by BTHC. The BTHC-related obligations arising from the AIF and Chase put options and the BTHC convertible preferred shares totalling US$216 million are included in the negotiations with creditors under Benpres' Balance Sheet Management Plan (BSMP). As of

December 31, 2002, Benpres had US$508 million and PhP4,218 million in direct and contingent obligations, detailed below, all of which are subject of the BSMP.

	At Dec 31, 2001		At Dec 31, 2002	
(In Millions)	PhP	US$	PhP	US$
Direct Obligations				
Long-term Commercial Papers (LTCP)	2,000.0		2,000.0	
Eurobond 7.875% Notes		150.0		150.0
Contingent Obligations				
Maynilad Water	1,880.0	132.8	1,713.0	126.0
MNTC	505.0	16.0	505.0	16.0
BayanTel		218.9		215.9

These direct and contingent obligations were reduced from their balances as of December 31, 2001 due to repayment by Maynilad of some of its obligations guaranteed by Benpres. In February 2003, MNTC likewise settled its bridge loans and other guaranteed obligations via drawdown on its project financing, thereby eliminating PhP505 million and US$16 million of Benpres contingent obligations.

On December 2, 2002, Benpres voluntarily made payments on its direct and contingent obligations that are subject of the BSMP (excluding contingent obligations arising from Maynilad which the latter continues to service). Pending an agreement with its creditors on the BSMP, the company has offered to make payments semi-annually using the following rates and based on the Company's liabilities computed as of May 31, 2002:

(c) At LIBOR plus a spread of 1.0% on all of its US dollar obligations; and
(d) At the 182-day Philippine Treasury Bill rate plus a spread of 1.0% on all of its peso obligations.

The amounts stated are all the liabilities recognized by Benpres and no further claims are expected outside of these items.

In line with the BSMP, Benpres does not have any material commitments for capital expenditures. There are no seasonal aspects that have a material effect on the company's financial condition or results of operations.

Financial Statements

The consolidated financial statements of the company are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with the external auditors on accounting and financial disclosures.

PART III – CONTROL AND COMPENSATION INFORMATION

Directors and Executive Officers of the registrant

DIRECTORS

Mr. Oscar M. Lopez, Chairman
Mr. Felipe B. Alfonso
Mr. Eugenio Lopez, III
Mr. Manuel M. Lopez
Mr. Angel S. Ong
Mr. Steve E. Psinakis
Mr. Washington Sycip (*independent)*
Mr. Vicente T. Paterno *(independent)*

EXECUTIVE & CORPORATE OFFICERS

Oscar M. Lopez	Chairman and Chief Executive Officer
Manuel M. Lopez	Vice Chairman of the Board
Angel S. Ong	President and Chief Operating Officer
Eugenio L. Lopez III	Treasurer
Steve E. Psinakis	Senior Adviser
Elpidio L. Ibañez	Chief of Staff with rank of Executive Vice President
Peter D. Garrucho, Jr.	EVP – Power Generation
Augusto Almeda Lopez	General Counsel with rank of EVP
Federico R. Lopez	EVP – Regulatory Management
Felipe B. Alfonso	EVP – Human Resource Development
Jorge A. Lichauco	Chief Financial Officer
Rommel S. Duran	Group Comptroller with rank of EVP
Pedro A. Chanco III	Senior Vice-President – Corporate Communications
Nestor J. Padilla	SVP – Property Development
Arthur De Guia	SVP – Manufacturing and Portfolio Investments
Cielito R. A. Diokno	Vice-President, Human Resources
Enrique I. Quiason	Corporate Secretary

Oscar M. Lopez	Oscar M. Lopez (aged 75) assumed the presidency in 1999 and has chaired the company's board since inception. He received a Bachelor of Arts degree from Harvard College and a Masters degree in Public Administration from Harvard University. He is chairman and chief executive officer of FPHC (since 1986), chairman and president of Lopez, Inc. (since 1999) and chairman of among others, FPIDC, MNTC, MWSI, Sierra Tours, BayanTel, Sky Vision and RCPI. He is vice chairman of the board at Rockwell Land and is a director of ABS-CBN.
Manuel M. Lopez	Manuel M. Lopez (aged 63) has been a director of the company since inception. He is a holder of a Bachelor of Science degree in Business Administration and attended the Program for Management Development at the Harvard Business School. He is the chairman of Meralco, chairman of the board at Rockwell Land, and is a director of among others, ABS-CBN, MNTC, Sierra Tours, FPIDC, FPHC, BayanTel, Sky Vision and Lopez, Inc. He was president of Meralco from 1986 to June 2001.
Steve E. Psinakis	Steve E. Psinakis (aged 74) was elected director in 1999. He received his BSME degree from the University of Pittsburgh. He has been a consultant and director of FPHC since 1996. He was concurrent president of First Private Power Corporation and Bauang Private Power Corporation from 1993 to 1996.

Eugenio Lopez III	Eugenio Lopez III (aged 53) has been director and treasurer of the company since inception. He received a Bachelor of Arts degree in Political Science from Bowdoin College and a Masters degree in Business Administration from the Harvard Business School. He has been chairman and chief executive officer of ABS-CBN since 1997, president and director of Sky Vision, vice chairman of the board at BayanTel and vice chairman and president of RCPI, among others. He was president of ABS-CBN from 1993 to 1997.
Washington Z. Sycip	Washington Z. SyCip (aged 83) has been a director of the company since 1996. He is the independent director. He received a Bachelor of Science degree in Commerce from the University of Sto. Tomas and a Master of Science degree in Commerce from Columbia University. He is chairman of the board of trustees and board of governors of the Asian Institute of Management, and Honorary Chairman of Euro-Asia Centre, INSEAD of France. He is also a member of the Board of Overseers of the Columbia University Graduate School of Business, and a board member of the Joseph H. Louder Institute of Management and International Studies, University of Pennsylvania.
Vicente T. Paterno	Vicente T. Paterno (aged 79) was elected as an independent *director* of the company in February 2004 to fill up the vacancy created by the resignation of Mr. Vicente R. Jayme. He received a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines and a Masters degree in Business Administration (with distinction) from Harvard University. He is the founding chairman of Philippine Seven Corporation and chairman of Phil-Seven Holdings Corporation.
Felipe B. Alfonso	Felipe B. Alfonso (aged 68) has been a director of the company since 1996. He has been EVP – Human Resource Development since January 2001. He received a Bachelor of Laws degree from the Ateneo de Manila University and a Masters degree in Business Administration from New York University. He has been co-vice chairman of the board of trustees of the Asian Institute of Management (AIM) since September 1999. He was AIM president from June 1990 to 1999. He is currently vice chairman of Meralco.
Angel S. Ong	Angel S. Ong (aged 55) was elected director and president and chief operating officer in 2004. He was the Company's EVP-chief financial officer from 2001 to 2004 and vice president for finance from 1998-2000. Mr. Ong received his Bachelor of Science in Commerce degree from the Philippine College of commerce and a Masters degree in Business Administration from the University of the Philippines. Prior to joining the Company, he was vice president for finance of BayanTel.
Elpidio L. Ibañez	Elpidio L. Ibañez (aged 54) has been chief of staff of the company since January 2001. He received his Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Masters degree in Business Administration from the University of the Philippines. He is a member of the board, president and COO of FPHC (since 1994), and a director of various FPHC subsidiaries and affiliates.
Peter D. Garrucho, Jr.	Peter D. Garrucho, Jr. (aged 60) has been EVP – Power Generation Sector since 2001. He has been Managing Director of the Energy Group under FPHC since 1994. He is also the chairman and president of Scandinavian Motors Corp. and the president of First Generation Holdings Corp., First Private Power Corp., Bauang Private Corporation, Bauang Private Power Corp. and First Gas Holdings Corp. He was formerly Secretary of Trade and Industry (January 1991 to February 1992) and likewise served as Acting Executive Secretary in the Office of the President of the Philippines (July to August 1992).

Augusto Almeda Lopez	Augusto Almeda Lopez (aged 76) has been EVP – General Counsel since January 2001. He received his Bachelor of Laws degree from the University of the Philippines and completed the Advanced Management Program of Harvard University. He is vice-chairman of ABS-CBN (since 1986) and FPHC and director for various subsidiaries of the Lopez Group.
Federico R. Lopez	Federico R. Lopez (aged 43) has been EVP – Regulatory Management for the company since January 2001. He is vice-president of FPHC (since September 1992), president of First Generation Holdings Corporation (since May 2002), president of First Gas Holdings Corporation, and a member of the board of directors of various FPHC subsidiaries.
Jorge A. Lichauco	Jorge A. Lichauco (aged 42) has been chief financial officer since August 1, 2001. He was the company's consultant from 1998 to July 31, 2003, handling capital markets and treasury. He received his Bachelor of Science in Management degree from the Ateneo de Manila University and Masters degree in Business Administration from the Kellogg Graduate School of Management. He is also a director of Rockwell Land Corporation, The Medical City, Sky Vision Corporation and BayanTrade Dotcom, Inc.
Rommel S. Duran	Rommel S. Duran (aged 60) has been EVP – Group Comptroller since January 2001. He holds a Bachelor of Laws degree from the University of the East and a Bachelor of Science degree in Commerce from Letran College. He is vice president and general manager of Lopez, Inc., where he first served as assistant comptroller in 1968.
Pedro A. Chanco III	Pedro A. Chanco III (aged 55) has been SVP – Corporate Communications since January 2001. He was vice president for group public relations from 1995-2000. He holds a Bachelor's degree in Journalism from the University of the Philippines and completed the Senior Business Economic Program of the University of Asia and the Pacific.
Nestor J. Padilla	Nestor J. Padilla (aged 50) has been SVP – property development since January 2001. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University. He has been president and CEO of Rockwell Land since 1995. He is a member of the board of trustees of the Rockwell Land Condominium Corporation and is a director of the Rockwell Club.
Arthur A. DeGuia	Arthur A. DeGuia (aged 53) has been SVP – manufacturing and portfolio investments since January 2001. His degrees include a Bachelor of Science in Electrical Engineering from the Mapua Institute of Technology, a Master of Engineering in Industrial Management from the Asian Institute of Thailand, and a Doctor of Philosophy in Industrial Engineering from the University of California (Berkeley). He has also been Managing Director of FPHC since 1997.
Enrique I. Quiason	Enrique I. Quiason (aged 44) has been the corporate secretary of the company since inception. He received his Bachelor of Science degree in Business Economics and a Bachelor of Laws degree from the University of the Philippines, and a Master of Laws degree in Securities Regulation from Georgetown University. He is a senior partner of the Quiason Makalintal Barot Torres & Ibarra Law Office. He is the corporate secretary of FPHC, FPIDC, MNTC, Rockwell Land, BayanTel, Sky Vision, RCPI, Sierra Tours, and Lopez, Inc. He is also assistant corporate secretary of ABS-CBN.

Cielito R.A. Diokno	Cielito R.A. Diokno (aged 50) has been with the company since 1997. She received her Bachelor of Science degree in Psychology from the University of the Philippines.

The Directors of the Company are elected at the Annual Stockholders' Meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers are appointed or elected annually by the Board of Directors at its first meeting following the Annual Meeting of Stockholders, each to hold office until a successor shall have been appointed.

Family Relationships

There are no other family relationships among the directors and officers listed above except for the following: Messrs. Oscar M. Lopez and Manuel M. Lopez are brothers; Mr. Eugenio Lopez III is the nephew of Messrs. Oscar and Manuel Lopez; Mr. Federico R. Lopez is the nephew of Mr. Manuel M. Lopez and the son of Mr. Oscar M. Lopez; and Mr. Steve Psinakis is the brother-in-law of Messrs. Oscar and Manuel Lopez.

Significant Employees

The names mentioned above make significant contribution to the business and all employees are expected by the Company to make their own contributions necessary to meet its organizational goals.

Involvement of Directors and Officers in Certain Legal Proceedings

The Company is not aware of any bankruptcy proceedings filed by or against any business of which a director, person nominated to become a director, executive officer, or control person of the Company is a party of which any of their property is subject.

The Company is not aware of any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, of any of its director, person nominated to become a director, executive officer, or control person.

The Company is not aware of any order, judgment, or decree not subsequently reversed, superseded, or vacated, by any court of competent jurisdiction, domestic, or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting the involvement of a director, person nominated to become a director, executive officer, or control person of the Company in any type of business, securities, commodities, or banking activities.

The Company is not aware of any findings by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self regulatory organization, that any of its director, person nominated to become a director, executive officer, or control person has violated a securities or commodities law.

Executive Compensation

Information as to the aggregate compensation paid or accrued during the last two fiscal years and to be paid in the ensuing fiscal year to the Company’s Chief Executive Officer and four other most highly compensated executive officers follows (in million Php):

	Year	Salary	Bonus	Others
Chief Executive Officer	2003	13.23	1.07	–
and four most highly	2004	21.94	3.83	–
compensated executive officers:	2005E	24.14	4.22	–
Oscar M. Lopez				
Eugenio Lopez III				
Angel S. Ong				
Cielito R.A. Diokno				
Jorge A. Lichauco				
All officers and directors	2003	24.64	4.45	–
as a group unnamed	2004	31.97	5.23	–
	2005E	35.17	5.75	–

1) The directors receive standard per diem of P10,000 per board meeting. Salaries, bonuses and other allowances are drawn from their respective companies who are the beneficial owners of the shares they represent.
2) There are no other arrangements or consulting contracts on which any director is compensated, whether directly or indirectly.
3) The directors do not have employment contracts. Their term of office is one year. The stockholders elect the members of the board of directors during the Annual Stockholders' Meeting.
4) There is no compensatory plan or arrangement for the termination, resignation, or retirement of a member of the Board.
5) There were no warrants or options earned in 2004
6) Details of any repricing of warrants and options - not applicable.

Security Ownership of Certain Beneficial Owners and Management

(a) Security Ownership of Certain Record and Beneficial Owners as at December 31, 2004

As of December 31, 2004, the Company knows of no one who beneficially owns in excess of 5% of the Company's common stock except as set forth in the table below:

(1) Title of Class	(2) Name and address record/beneficial owner	(3) Amount and nature of beneficial ownership (indicate by "r" or "b")	(4) Percent of class
Common	Lopez, Inc. 5/F Benpres Building Meralco Avenue, Ortigas Center, Pasig City	2,397,238,126 r *	52.32%
Common	Lopez, Inc. (address same as above)	5,865,590 r *	0.13%

* *Lopez, Inc. is the holding company of the Lopez family. It is owned by the respective holding companies of the family of the late Eugenio Lopez, Jr., Oscar M. Lopez, Manuel M. Lopez and Presentacion L. Psinakis.*

* *Lopez, Inc. issued Shares Purchase Rights (SPURs) to certain holders which give the holders thereof the right to delivery and/or sale of common shares of Benpres and other rights relating to certain rights (other than voting rights) benefits, distributions, payments, securities or any other property attributable to or derived from the shares.*

(b) Security Ownership of Management as at December 31, 2004

(1) Name of beneficial owner	(2) Position	(3) Amount and nature of beneficial ownership	(4) Percent ownership
Oscar M. Lopez	Chairman, President & CEO	8,611,991 r (sole voting)	0.19%
Manuel M. Lopez	Director	7,090,460 r (sole voting)	0.15%
Manuel M. Lopez &/or Teresa Lopez		10,985,000 r (sole voting)	0.24%
Eugenio Lopez III	Treasurer	2,326,042 r (sole voting)	0.05%
Elpidio Ibañez	Chief of Staff	1,834,217 r (sole voting)	0.04%
Rommel S. Duran	EVP - Group Comptroller	1,724,138 r (sole voting)	0.04%
Arthur A. de Guia	SVP - Manufacturing. and Portfolio Investment	621,000 r (sole voting)	0.01%
All directors and executive officers as a group		33,192,848 r (sole voting)	0.72%

There have not been any arrangements that have resulted in a change in control of the Company during the period covered by this report. The Company is not aware of the existence of any voting trust arrangement among the shareholders.

Certain Relationships and Related Transactions

Parent of the Registrant and the Voting Securities Owned

Parent	No. of Shares Held	% to Total
Lopez, Inc.	2,403,103,716 *	52.45%

* *87,837,930 shares representing 1.92% are covered by the SPURs issued by Lopez, Inc. to certain holders which give the holders thereof the right to delivery and/or sale of common shares of Benpres and other rights relating to certain rights (other than voting rights, distributions, payments, securities or any other property attributable to or derived from the shares.*

The Company retains the law firm of Quiason Makalintal Barrot Torres and Ibarra for legal services. During the last fiscal year, the Company paid Quiason Makalintal Barrot Torres and Ibarra, from which Mr. Enrique I. Quiason is a senior partner, legal fees which the Company believes to be reasonable for the services rendered. During the last three years, Quiason Makalintal Barot Torres and Ibarra rendered legal services in connection with the Balance Sheet Management Plan.

PART IV – EXHIBITS AND SCHEDULES

Exhibits and Reports on SEC Form 17-C

(a) **Exhibits –** There are no accompanying exhibits for Parts I and III except the list of the Subsidiaries and Direct Affiliates of the Registrant (See page 25)

Exhibits are either not applicable to the Company or require no answer.

(b) **Reports on SEC Form 17C for the last six months of 2004 –** None

EXHIBIT 1

SUBSIDIARIES AND DIRECT AFFILIATES OF THE REGISTRANT

Benpres Holdings Corporation has eleven subsidiaries and direct affiliates with jurisdiction all in the Philippines, as follows:

Name	Effective % of ownership	Principal Activities
ABS-CBN Broadcasting Corporation	58.06%	Broadcasting and Communications
Bayan Telecommunications Holdings Corporation	68.41%	Telecommunications
Bayanmap Corporation	51.00%	Information Service Provider
Bayantrade Dotcom, Inc.	10.25%	e-Commerce
Corporate Information Solutions, Inc.	49.00%	Computer Services
First Philippine Holdings Corporation	46.47%	Power Generations and Distribution
First Philippine Infrastructure Development Corporation	62.00%	Infrastructure
Maynilad Water Services, Inc.	59.00%	Water Distribution
Professional Services, Inc (The Medical City)	18.61%	Health Care
Rockwell Land Corporation	24.50%	Real Estate
Sky Vision Corporation	17.23%	Cable Television

SIGNATURES

Pursuant to the requirements of the Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned, thereunto duly authorized, in the City of Pasig on the date indicated.

By:

OSCAR M. LOPEZ
Chairman and Chief Executive Officer

ANGEL S. ONG
President and Chief Operating Officer

JORGE A. LICHAUCO
Chief Financial Officer

MA. VICTORIA M. MARCELINO
AVP – Financial Control

ENRIQUE I. QUIASON
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ______________________ affiant(s) exhibiting to me their Residence Certificates, as follows:

Names	Res. Cert. No.	Date	Place of Issue
Oscar M. Lopez	16178817	01/25/05	Pasig City
Ange S. Ong	16212909	02/22/2005	Pasig City
Jorge A. Lichauco	16212915	02/22/2004	Pasig City
Ma. Victoria M. Marcelino	189541	04/14/05	Pasig City
Enrique I. Quiason	16167809	01/10/05	Pasig City

Doc. No. ____
Page No. ____
Book No. ____
Series of 2005.

BENPRES HOLDINGS CORPORATION

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

These schedules, which are required by Part IV(e) of RSA Rule 48, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Benpres Holdings Corporation is responsible for all information and representations contained in the consolidated financial statements as of December 31, 2004 and 2003 and for the each of the three years in the period ended December 31, 2004. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company. SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.

OSCAR M. LOPEZ
Chairman of the Board and
Chief Executive Officer

JORGE A. LICHAUCO
Chief Financial Officer

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2004 and 2003
and Years Ended December 31, 2004, 2003, and 2002

and

Report of Independent Auditors

COVER SHEET

A	S	0	9	3	0	0	4	3	6	9

SEC Registration Number

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

4th Floor, Benpres Building, Meralco Avenue, Pasig City

(Business Address: No. Street City/Town/Province)

Mr. Jorge A. Lichauco

(Contact Person)

910-3040

(Company Telephone Number)

1	2	3	1

Month *Day*

(Fiscal Year)

A	A	C	F	S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

13,430

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Benpres Holdings Corporation
4th Floor, Benpres Building
Meralco Avenue, Pasig City

We have audited the accompanying consolidated balance sheets of Benpres Holdings Corporation and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 Benpres Holdings Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

We have examined the pro forma adjustments reflecting the transfer of media interest transaction described in Note 2 and the application of those adjustments to the historical amounts in the assembly of the accompanying pro forma consolidated balance sheets of Benpres Holdings Corporation and Subsidiaries as of December 31, 2004 and 2003, and the pro forma consolidated statements of operations and cash flows for the years then ended.

Such pro forma adjustments are based upon management's assumptions that there will be a conversion of the Notes as described further in Note 2. Our examination included such procedures as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the transaction referred to in Note 2 occurred at an earlier date. However, the pro forma consolidated financial statements are not necessarily indicative of the results of operations or related effects on the financial position that would have been attained had the above-mentioned transaction actually occurred earlier.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above mentioned transaction described in Note 2, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma column reflects the proper application of those adjustments to the historical financial statement amounts in the pro forma consolidated balance sheets as of December 31, 2004 and 2003, and the pro forma consolidated statements of operations and cash flows for the years then ended.

Without qualifying our opinion, we draw attention to the financial condition of the Company as discussed in Note 1 to the consolidated financial statements. As discussed in Note 1(b), the ability of the Company to continue operating as a going concern depends on the success of its Balance Sheet Management Plan. As discussed in Note 1(c), as of December 31, 2004 and 2003, the carrying values of the Company's investments and deposits in and advances to Bayan Telecommunications Holdings Corporation (Bayantel) have been reduced to zero with the remaining possible claims against the Parent Company credited to "Estimated liabilities from guarantee and commitments" account in the consolidated balance sheets. In addition, as discussed in Notes 1(d) and 26(a), the Parent Company has significant investments in, including advances and guarantees to, Maynilad Water Services, Inc. (Maynilad Water). As of December 31, 2004, the Company's investments in and advances (excluding those arising from guarantees on bridge loans) to Maynilad Water have been reduced to a negative balance and zero, respectively. The ability of Maynilad Water to continue operating as a going concern depends on the approval of the Modified Rehabilitation Plan by the Rehabilitation Court. The resolution of guarantees of the Parent Company to Maynilad Water depends on the agreement of all of Maynilad Water's creditors on the restructured terms of its outstanding liabilities. All of the above foregoing factors indicate the existence of material uncertainties which raise substantial doubt about the ability of the Company to continue operating as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern and if the resolution of the guarantees has not been reached. Further, as discussed in Note 1(d), in view of the material uncertainties in Maynilad Water, impairment losses on its concession assets, deferred foreign currency differential adjustments and property, plant and equipment and additional provisions for losses on future estimated concession fee payments, are not determinable. As also discussed in Note 8, Manila Electric Company (MERALCO), an associate of First Philippine Holdings Corporation (which is an associate accounted for under the equity method), has pending realty tax assessments on its distribution facilities and local franchise tax cases. To address these possible liabilities, MERALCO filed an application with the Energy Regulatory Commission for a recovery mechanism which is pending hearing. The final outcome of these matters cannot be presently determined, and no provision for any liability that may result had been made in the financial statements of MERALCO. The Company also has not provided for its share in the liability that may result on the accompanying consolidated financial statements.

Maria Vivian G. Cruz
Partner
CPA Certificate No. 83687
SEC Accreditation No. 0073-A
Tax Identification No. 102-084-744
PTR No. 1195841, January 3, 2005, Makati City

April 7, 2005

Report of Independent Auditors

The Stockholders and the Board of Directors
Benpres Holdings Corporation

We have audited the accompanying consolidated balance sheets of Benpres Holdings Corporation and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. 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 Benpres Holdings Corporation and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

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Maria Vivian G. Cruz
Partner
CPA Certificate No. 83687
SEC Accreditation No. 0073-A
Tax Identification No. 102-084-744
PTR No. 1195841, January 3, 2005, Makati City

April 7, 2005

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Historical		Pro Forma	
	December 31			
	2004	2003 (As restated - Note 3)	**2004**	2003 (As restated - Note 3)
	(In Millions)			
ASSETS				
Current Assets				
Cash and cash equivalents (Note 4)	**₱3,236**	₱1,994	**₱4,527**	₱3,575
Short-term investments (Note 4)	**697**	–	**697**	–
Marketable equity securities (Note 5)	**390**	390	**390**	390
Receivables - net (Note 6)	**674**	695	**4,432**	4,484
Current portion of program rights (Notes 12 and 18)	**–**	–	**873**	881
Materials and supplies at net realizable value	**290**	325	**457**	474
Other current assets (Note 7)	**356**	166	**819**	525
Total Current Assets	**5,643**	3,570	**12,195**	10,329
Noncurrent Assets				
Investments at equity - net (Notes 1, 2, 3, 8 and 18)	**23,545**	22,188	**15,972**	14,766
Property and equipment (Notes 10 and 16)	**4,114**	3,967	**15,098**	15,210
Due from related parties (Note 18)	**6**	6	**269**	336
Program rights - net of current portion (Notes 12 and 18)	**–**	–	**804**	936
Other noncurrent assets - net (Notes 1, 2, 8, 11, 12, 18 and 19)	**14,431**	14,178	**19,624**	17,105
Total Noncurrent Assets	**42,096**	40,339	**51,767**	48,353
	₱47,739	₱43,909	**₱63,962**	₱58,682
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Bank loans (Notes 1 and 13)	**₱7,076**	₱7,007	**₱7,543**	₱7,228
Accounts payable and other current liabilities (Notes 14 and 24)	**5,776**	3,822	**8,980**	6,701
Current portion of long-term debt (Notes 1, 10, 11 and 16)	**10,442**	10,338	**11,249**	12,454
Estimated liabilities from guarantees and commitments (Notes 1 and 15)	**10,441**	10,358	**10,441**	10,358
Total Current Liabilities	**33,735**	31,525	**38,213**	36,741
Noncurrent Liabilities				
Long-term debt - net of current portion (Notes 1, 10, 11 and 16)	**12**	12	**5,174**	3,466
Payable to MWSS (Note 1)	**9,295**	6,870	**9,295**	6,870
Other noncurrent liabilities (Notes 11, 17, 18 and 23)	**2,692**	1,505	**3,310**	1,824
Total Noncurrent Liabilities	**11,999**	8,387	**17,779**	12,160
Minority Interests (Note 1)	**230**	867	**6,195**	6,651
Stockholders' Equity				
Capital stock	**4,581**	4,581	**4,581**	4,581
Capital paid in excess of par value	**6,766**	6,766	**6,766**	6,766
Share in equity adjustment from translation (Note 8)	**62**	53	**62**	53
Deficit (Notes 3 and 8)	**(9,634)**	(8,270)	**(9,634)**	(8,270)
Total Stockholders' Equity	**1,775**	3,130	**1,775**	3,130
	₱47,739	₱43,909	**₱63,962**	₱58,682

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Historical			Pro Forma	
	Years Ended December 31				
	2004	2003 (As restated - Note 3)	2002 (As restated - Note 3)	**2004**	2003 (As restated - Note 3)
	(In Millions, Except Per Share Amounts)				
REVENUES					
Revenue from water and sewer services	**₱2,638**	₱2,457	₱2,543	**₱2,638**	₱2,457
Foreign Currency Differential Adjustment (FCDA) (Notes 1 and 11)	**1,267**	2,361	2,723	**1,267**	2,361
Sales and services	**–**	188	432	**4,310**	3,820
Airtime	**–**	–	–	**11,310**	11,065
	3,905	5,006	5,698	**19,525**	19,703
COST OF SALES AND SERVICES					
Cost of sales and services (Notes 19 and 24)	**3,226**	3,702	3,888	**5,435**	5,519
Agency commission, marketing expenses and co-producer's share (Note 20)	**–**	–	–	**2,046**	1,981
Production costs (Note 21)	**–**	–	–	**4,161**	3,500
GROSS PROFIT	**679**	1,304	1,810	**7,883**	8,703
OPERATING INCOME (EXPENSES)					
General and administrative expenses (Notes 22 and 24)	**(1,318)**	(2,090)	(2,123)	**(4,767)**	(4,986)
Provisions for:					
Decline in value of:					
Investments at equity and advances (Notes 1 and 8)	**(320)**	(104)	(1,035)	**(320)**	(104)
Other noncurrent assets (Notes 1 and 11)	**–**	(5)	–	**–**	(5)
Estimated liabilities from guarantees and commitments (Notes 1 and 15)	**–**	(1,869)	–	**–**	(1,869)
Depreciation and amortization (Notes 10 and 11)	**(278)**	(269)	(253)	**(2,561)**	(2,605)
Other income	**190**	350	152	**417**	372
Loss from discontinuing operations	**–**	–	–	**–**	(2)
INCOME (LOSS) FROM OPERATING ACTIVITIES	**(1,047)**	(2,683)	(1,449)	**652**	(496)
INVESTMENT INCOME (EXPENSES)					
Equity in net earnings of associates (Notes 3 and 8)	**1,586**	1,959	594	**1,459**	1,660
Accretion of earnings (losses) on Notes (Notes 2 and 8)	**173**	33	(267)	**–**	–
Interest on Notes (Notes 2 and 8)	**134**	134	134	**–**	–
Gain (loss) on sale of investments (Notes 9 and 30)	–	126	(69)	–	126
Recovery in value of marketable equity securities (Note 5)	**–**	72	16	–	72
Gain on redemption of Notes	**–**	–	287	**–**	–
Gain on dilution of equity interest	**–**	45	–	**–**	45

(Forward)

	Historical			Pro Forma	
	Years Ended December 31				
	2004	2003 (As restated - Note 3)	2002 (As restated - Note 3)	**2004**	2003 (As restated - Note 3)
	(In Millions, Except Per Share Amounts)				
FINANCE INCOME (CHARGES)					
Interest and financing charges (Notes 13 and 16)	**(₱2,817)**	(₱1,838)	(₱1,733)	**(₱3,621)**	(₱2,493)
Foreign exchange losses - net	**(285)**	(350)	(257)	**(287)**	(358)
Amortization of performance bond	**(187)**	(165)	(129)	**(187)**	(165)
Interest income	**132**	75	278	**285**	128
LOSS FROM ORDINARY ACTIVITIES BEFORE PROVISION FOR INCOME TAX, MINORITY INTEREST AND SHARE IN EXTRAORDINARY LOSS OF AN ASSOCIATE	**2,311**	2,592	2,595	**1,699**	1,481
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)					
Current	**3**	2	–	**324**	674
Deferred	**–**	–	–	**(37)**	(12)
	3	2	–	**287**	662
LOSS FROM ORDINARY ACTIVITIES BEFORE MINORITY INTEREST AND SHARE IN EXTRAORDINARY LOSS OF AN ASSOCIATE	**2,314**	2,594	2,595	**1,986**	2,143
MINORITY INTEREST	**(950)**	(689)	(648)	**(622)**	(238)
LOSS FROM ORDINARY ACTIVITIES	**1,364**	1,905	1,947	**1,364**	1,905
SHARE IN EXTRAORDINARY LOSS OF AN ASSOCIATE (Note 8)	**–**	–	2,097	**–**	–
NET LOSS (Notes 3 and 25)	**₱1,364**	₱1,905	₱4,044	**₱1,364**	₱1,905
Basic Loss Per Share (Notes 3 and 25)					
On loss from ordinary activities	**₱0.2977**	₱0.4158	₱0.4249	**₱0.2977**	₱0.4158
On net loss	**0.2977**	0.4158	0.8827	**0.2977**	0.4158

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Years Ended December 31		
	2004	2003 (As restated - Note 3)	2002 (As restated - Notes 3 and 8)
	(In Millions, Except Number of Shares and Par Value Amounts)		
CAPITAL STOCK - ₱1 par value			
Authorized - 5,500,000,000 shares			
Issued - 4,581,544,408 shares	**₱4,581**	₱4,581	₱4,581
CAPITAL PAID IN EXCESS OF PAR VALUE	**6,766**	6,766	6,766
SHARE IN EQUITY ADJUSTMENT FROM TRANSLATION (Note 8)			
Balance at beginning of year	**53**	55	49
Equity adjustment from translation during the year	**9**	(2)	6
Balance at end of year	**62**	53	55
DEFICIT			
Balance at beginning of year, as previously reported	**(8,233)**	(6,326)	(2,326)
Effect of change in accounting for income taxes and leases by investees (Note 3)	**(37)**	(39)	5
Balance at beginning of year, as restated	**(8,270)**	(6,365)	(2,321)
Net loss	**(1,364)**	(1,905)	(4,044)
Balance at end of year	**(9,634)**	(8,270)	(6,365)
	₱1,775	₱3,130	₱5,037

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Historical			Pro Forma	
	Years Ended December 31				
	2004	2003 (As restated - Note 3)	2002 (As restated - Note 3)	**2004**	2003 (As restated - Note 3)
			(Amounts in Millions)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before income tax and minority interest	**(₱2,311)**	(₱2,592)	(₱2,595)	**(₱1,699)**	(₱1,481)
Adjustments for:					
Amortization of deferred FCDA	**1,061**	2,085	2,567	**1,061**	2,085
Amortization of performance bond	**187**	165	129	**187**	165
Provisions for:					
Decline in (recovery of) value of:					
Investments and advances	**320**	104	1,035	**320**	104
Marketable equity securities	**–**	(72)	(16)	**1**	(72)
Other noncurrent assets	**–**	5	–	**–**	5
Doubtful accounts	**70**	–	408	**234**	179
Estimated liabilities from guarantees and commitments	**–**	1,869	–	**–**	1,869
Interest and financing charges	**2,817**	1,838	1,733	**3,621**	2,493
Equity in net earnings of associates	**(1,586)**	(1,959)	(594)	**(1,459)**	(1,660)
Unrealized foreign exchange losses	**285**	350	257	**287**	358
Depreciation and amortization	**278**	291	253	**2,561**	2,605
Accretion of losses (earnings) on Notes	**(173)**	(33)	267	**–**	–
Interest on Notes	**(134)**	(134)	(134)	**–**	–
Loss (gain) on sale of investments	**–**	(126)	69	**–**	(126)
Interest income	**(132)**	(75)	(278)	**(285)**	(128)
Gain on dilution of equity interest	**–**	(45)	–	**–**	(45)
Gain on redemption of Notes	–	–	(287)	**–**	–
Gain on sale of property and equipment	–	–	–	**–**	(47)
Operating income before working capital changes	**682**	1,671	2,814	**4,829**	6,304
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Receivables	**(45)**	109	(130)	**(107)**	(381)
Program rights	–	–	–	**(607)**	(63)
Other current assets	**(364)**	113	93	**(486)**	(35)
Increase (decrease) in:					
Accounts payable and other current liabilities	**229**	(758)	(1,603)	**651**	(699)
Payable to MWSS	–	–	51	**–**	–
Cash generated from operations	**502**	1,135	1,225	**4,280**	5,126
Payments on estimated liabilities from guarantees and commitments	**(67)**	(68)	(169)	**(67)**	(68)
Income tax paid	–	–	(7)	**(431)**	(754)
Net cash provided by operating activities	**435**	1,067	1,049	**3,782**	4,304

(Forward)

	Historical			Pro Forma	
	Years Ended December 31				
	2004	2003 (As restated - Note 3)	2002 (As restated - Note 3)	**2004**	2003 (As restated - Note 3)
	(Amounts in Millions)				
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (increase) in:					
Short-term investments	**(₱697)**	₱–	₱–	**(₱697)**	₱–
Other noncurrent assets	**567**	426	59	**(1,815)**	(241)
Due from related parties	**–**	36	–	**67**	(29)
Dividends and interest received from investees	**539**	–	25	**254**	94
Additions to property and equipment	**(425)**	(447)	(645)	**(1,233)**	(1,273)
Interest received	**128**	43	60	**169**	43
Proceeds from sale of investments	**–**	119	1,612	**–**	119
Proceeds from sale of property and equipment	**–**	22	–	**27**	99
Acquisition of investments and decrease (increase) in advances	**(314)**	(298)	(309)	**(312)**	169
Net cash provided by (used in) investing activities	**(202)**	(99)	802	**(3,540)**	(1,019)
CASH FLOWS FROM FINANCING ACTIVITIES					
Interest and financing charges paid	**(414)**	(813)	(880)	**(1,231)**	(1,451)
Repayment of loans and long-term debt	**–**	(1,082)	(931)	**(5,569)**	(1,603)
Availments of loans and long-term debt	**–**	35	392	**6,221**	35
Increase (decrease) in:					
Other noncurrent liabilities	**1,193**	464	406	**1,122**	209
Minority interests	**254**	590	169	**107**	590
Due to related parties	**(24)**	(133)	329	**60**	(171)
Net cash provided by (used in) financing activities	**1,009**	(939)	(515)	**710**	(2,391)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,242**	29	1,336	**952**	894
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,994**	1,965	629	**3,575**	2,681
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,236**	₱1,994	₱1,965	**₱4,527**	₱3,575

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Status of Operations**

   a. Corporate Information

   Benpres Holdings Corporation (the Parent Company) is incorporated in the Philippines. The Parent Company is a 56.31%-owned subsidiary of Lopez, Inc. (Lopez), also a Philippine entity. In the historical consolidated financial statements, the Parent Company and its subsidiaries (collectively referred to as "the Company") are mainly involved in investment holdings and water distribution. In the pro forma consolidated financial statements, the subsidiaries also include a broadcasting and entertainment company. In the historical and pro forma consolidated financial statements, the Company's associates are involved in telecommunications, power generation and distribution, cable television, real estate development and infrastructure. The registered office address of the Parent Company is 4th Floor, Benpres Building, Meralco Avenue, Pasig City. The average number of employees of the Parent Company was 18 in 2004, 19 in 2003 and 23 in 2002. On a consolidated basis, the average number of regular employees and talents (for pro forma) follows:

	Historical	Pro Forma
2004	2,418	8,979
2003	3,061	9,366
2002	3,052	8,914

   The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on April 7, 2005.

   b. Balance Sheet Management Plan

   In June 2002, the Parent Company announced a plan called Balance Sheet Management Plan (BSMP) to address all its financial obligations. The execution of the BSMP has a three-pronged approach:

   1) Debt reduction by getting the relevant subsidiaries to repay their debts as guaranteed by the Parent Company;

   2) Raising cash through orderly asset sales; and

   3) Cost reduction and suspension of capital investment.

   The BSMP is also designed to accommodate various scenarios depending on the success of the Parent Company's asset sale and debt reduction initiatives.

   Long-term direct obligations of the Parent Company that are due for payment as of December 31, 2004 and 2003 amounted to about ₱10,442 million and ₱10,338 million, respectively (see Note 16). In addition, by virtue of its guarantees and commitments, based on the BSMP, the Parent Company may be liable for certain obligations that already fell due amounting to approximately US$351 million (equivalent to ₱19,754 million) as of December 31, 2004 and US$356 million (equivalent to ₱19,789 million) as of December 31, 2003 [see Notes 26(a) and (b)]. As of December 31, 2004 and 2003, historical consolidated current liabilities exceeded consolidated current assets by ₱28,092 million and ₱27,955 million, respectively. Net loss for the years ended December 31, 2004 and 2003 amounted to ₱1,364 million and ₱1,905 million, respectively. In 2003, guarantees with respect to First Philippine Infrastructure Development Corporation (FPIDC) and Manila North Tollways Corporation (MNTC) have been removed. The Parent Company's guarantees in Maynilad Water Services, Inc. (Maynilad Water) may be resolved upon the agreement of all of Maynilad Water's creditors on the restructured terms of its outstanding liabilities as discussed in Note 26(a) and item (d).

Starting in 2002, the Parent Company defaulted on its principal and interest payments on its long-term direct obligations and guarantees and commitments (see Notes 16 and 26). As proposed in the BSMP, all liabilities of the Parent Company were computed as of May 31, 2002. Credit Suisse First Boston were appointed as financial adviser to assist the Parent Company in reviewing its capital structure as well as in preparing the BSMP that will enable it to address its maturing direct obligations, as well as contingent obligations that may arise from its outstanding guarantees and commitments. The creditors formed an Overall Creditors Committee (OCC) to facilitate the overall process for the BSMP.

As proposed in the BSMP, the Parent Company would make good faith semi-annual payments on its direct and contingent obligations. The first payment was made on December 2, 2002. Succeeding payments were made in June 2003, December 2003, May 2004 and November 2004.

On March 13, 2003, the Parent Company convened a Special Stockholders' Meeting to obtain stockholders' consent to delegate to the BOD the authority to take all actions and matters necessary and desirable for the restructuring of the Parent Company's obligations under the BSMP. The stockholders granted full authority to the BOD to negotiate with the creditors without the need for prior stockholders' approval to fast track the debt negotiation process.

c. Bayan Telecommunications Holdings Corporation (Bayantel)

As of December 31, 2004 and 2003, the Parent Company's total investments, deposits in and advances to Bayantel (before any valuation allowance and accumulated equity in net losses) amounted to ₱11,422 million and ₱11,239 million, respectively (see Notes 8 and 11). It has commitments to acquire approximately US$50.39 million Bayantel shares from certain shareholders of Bayantel as discussed in Note 26(b). In addition, the Parent Company has guaranteed the redemption of the convertible preferred shares issued by Bayantel with a redemption value of US$167 million based on original terms at redemption date as discussed in Note 26(a). In relation to the guarantee, the Parent Company advanced the dividend payments on behalf of Bayantel. These advances amounted to US$19 million (equivalent to ₱1,007 million) as of December 31, 2004. Pursuant to this guarantee, the Parent Company and Bayantel entered into an Indemnity Agreement where Bayantel will indemnify the Parent Company in the event that it is required to pay the guaranteed obligations. Under the Indemnity Agreement, Bayantel shall indemnify the Parent Company the guaranteed obligations actually paid within 45 days from the date of such payment. Bayantel shall also indemnify the Parent Company for all costs, liabilities, losses and expenses that it may incur by reason of, in connection with, or in relation to the guarantee (see Note 15).

Bayantel's main operating subsidiary, Bayan Telecommunications, Inc. (BTI), has suffered recurring losses resulting in accumulated deficit of ₱10,863 million as of December 31, 2004 and accumulated deficit of ₱30,811 million as of December 31, 2003. This has affected Bayantel's ability to service its maturing obligations on a timely basis.

On January 16, 2001, BTI failed to pay interest due on its bond payable and, on January 19, 2001, declared that it would seek restructuring of its debts. A significant portion of BTI's debts is guaranteed by Bayantel. BTI has been in discussion with its creditors and appointed CLSA Equity Capital Markets, Ltd. to assist in negotiating a restructuring plan with the creditors.

On July 30, 2003, the Bank of New York (Petitioner), for and on behalf of the bond creditors of BTI, filed a "Petition for Corporate Rehabilitation of BTI" with the Pasig Regional Trial Court (Court). On November 28, 2003, the Court appointed a rehabilitation receiver (Receiver) to evaluate the rehabilitation plan and to submit its recommendations to the Court.

In a Decision dated June 28, 2004, the Court approved the rehabilitation plan submitted by the Receiver on May 7, 2004 subject to certain amendments. Pursuant to the Interim Rules of Procedure for Corporate Rehabilitation, the decision of the Court approving the rehabilitation plan is immediately executory.

On September 30, 2004, BTI commenced implementation and paid interest based on the decision of the court. On January 13, 2005, the Receiver filed his Implementing Term Sheet. The court approved the Receiver's term sheet on March 15, 2005.

Within the period to appeal, certain creditors, including the Petitioner and majority of the secured creditors, filed the required petitions for the review of the Decision approving the Plan, which are currently pending with the Court of Appeals. The unsecured creditors are seeking for the increase in the level of sustainable debt from US$325 million to US$471 million to be repaid in 12 years. The secured creditors, on the other hand, are appealing the pari-passu decision of the Court. The creditors, however, did not seek an order restraining the implementation of the Decision. Consequently, BTI continues to implement the rehabilitation plan as approved by the Court.

The ability of Bayantel and BTI to continue operating as a going concern depends largely on the successful implementation of BTI's Plan and BTI's ability to sustain revenue growth. In view of the above, the Parent Company has set up an allowance for decline in value of its investments in and advances to Bayantel, including additional claims that may arise from its guarantees and commitments amounting to ₱15,698 million and ₱15,431 million as of December 31, 2004 and 2003, respectively. As of December 31, 2004 and 2003, the carrying values of the Parent Company's investments and deposits in and advances to Bayantel have been reduced to zero with the remaining possible claims against the Parent Company credited to "Estimated liabilities from guarantees and commitments" account in the consolidated balance sheets. The portion of the guarantees and commitments that have not been provided for amounted to approximately ₱1,669 million as of December 31, 2004 and 2003. Such amount represents management's estimate of the Parent Company's share in the remaining potential net worth of Bayantel.

Condensed consolidated financial information of Bayantel follow:

	2004	2003
	(In Millions)	
Cash and cash equivalents	**₱746**	₱880
Trade receivables	**1,727**	1,228
Investments and advances	**571**	155
Property and equipment	**16,359**	16,801
Total assets	**20,261**	19,490
Restructured debt, including current portion	**8,307**	–
Long-term debt under restructuring	**–**	13,797
Bonds payable, under restructuring	**–**	11,114
Total liabilities	**15,461**	40,842
Stockholders' equity (capital deficiency)	**26,015**	(7,633)
Revenue	**5,365**	5,067
General and administrative expenses	**2,993**	3,378
Excess of fair value of restructured debt over the carrying value of old debt	**19,353**	–
Net income (loss)	**26,015**	(7,633)

d. Maynilad Water

Maynilad Water was incorporated on January 22, 1997 as a joint venture between the Parent Company and Suez-Lyonnaise Des Eaux, now known as Suez Environnement (Suez), primarily to bid for the operation of the privatized system of waterworks and sewerage services of the Metropolitan Waterworks and Sewerage System (MWSS) for Metropolitan Manila.

As of December 31, 2004 and 2003, the Parent Company's total investments in and advances to Maynilad Water (before any valuation allowance and accumulated equity in net losses) amounted to ₱4,324 million and ₱4,321 million, respectively. As of December 31, 2004 and 2003, its investment in Maynilad Water has been reduced to negative ₱1,396 million and ₱107 million, respectively, representing its share in the accumulated net losses of Maynilad Water. The Parent Company's advances have been reduced to zero after valuation allowance.

Minority interest includes advances from the minority shareholder of ₱1,187 million in 2004 and ₱1,132 million in 2003 [see Notes 18 and 27(b)], net of its share in the capital deficiency of Maynilad Water.

On February 21, 1997, Maynilad Water entered into a Concession Agreement with MWSS, a government-owned and controlled corporation organized and existing pursuant to Republic Act No. 6234 (the Charter), as amended, with respect to the MWSS West Service Area. The Concession Agreement sets forth the rights and obligations of Maynilad Water throughout the concession period. The MWSS Regulatory Office (MWSS-RO or Regulatory Office) acts as the regulatory body of the Concessionaires [Maynilad Water and the East Concessionaire - Manila Water Company, Inc. (Manila Water)] under the Concession Agreement with MWSS.

Under the Concession Agreement, MWSS grants Maynilad Water (as contractor to perform certain functions and as agent for the exercise of certain rights and powers under the Charter), the sole right to manage, operate, repair, decommission and refurbish all fixed and movable assets (except certain retained assets) required to provide water and sewerage services in the West Service Area for 25 years commencing on August 1, 1997 (the Commencement Date) to May 6, 2022 (the Closing Date) or the Early Termination Date as the case may be.

On August 1, 1997, Maynilad Water officially took over the operations of the West Service Area. Rehabilitation work for the service area, which was expected then to take three years, commenced immediately thereafter. As provided for in Maynilad Water's project plans, full operational capacity will be attained upon substantial completion of the vital rehabilitation projects and vital new capital expenditures. There had been a substantial delay in the completion of vital rehabilitation projects and deferment of vital new capital expenditures. Until then, the project was deemed to be in the rehabilitation phase. Maynilad Water started commercial operations on January 1, 2003.

Maynilad Water is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area. Legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad Water during the concession period remains with Maynilad Water until the Closing Date (or on Early Termination Date) at which time, all rights, titles and interest in such assets will automatically vest in MWSS.

Under the Concession Agreement, Maynilad Water is entitled to the following rate adjustments:

a. Annual standard rates adjustment to compensate for increases in the Consumer Price Index (CPI) subject to rates adjustment limit.

b. Extraordinary price adjustments to account for the financial consequences of the occurrence of certain unforeseen events subject to grounds stipulated in the Concession Agreement which include, among others, the following:

   i. in respect to any MWSS loan, a change of more than 2% occurring after December 6, 1996 (the date of the distribution to Maynilad Water of the technical and business assumptions set forth in the pertinent exhibit in the Concession Agreement) in the rate of exchange between the Philippine peso and the currency in which such MWSS loan is denominated;

   ii. in respect to any Maynilad Water loan, a change of more than 2% occurring after the drawdown date of such Maynilad Water loan in the rate of exchange between the Philippine peso and the currency in which such Maynilad Water loan is denominated and, in either case, such change in exchange rate has not previously been subject of extraordinary price adjustment; and

   iii. significant additional costs incurred by Maynilad Water as a result of an event of force majeure which are not covered by insurance.

c. Rate Rebasing

Amendment No.1

Between July 2001 and September 2001, Maynilad Water's representatives engaged in negotiations with MWSS and Government officials regarding the changes to the economic and commercial terms of the Concession Agreement that were needed to make the Concession financially viable. Amendment No. 1 to the Concession Agreement ("Amendment No. 1") was a turning point because MWSS had at last recognized that the Concession could not survive unless key economic and commercial terms were changed, and MWSS committed itself contractually to provide relief under the terms of the Concession Agreement.

On December 9, 2002, Maynilad Water issued a "Notice of Early Termination of the Concession." MWSS commenced the arbitration proceedings on January 7, 2003, when it filed a "Dispute Notice" to question Maynilad Water's "Notice of Early Termination of the Concession." After the submission of pleadings and hearings in August 2003 and September 2003, on November 7, 2003, the Appeals Panel for Major Disputes (the "Major Panel") issued an order holding that neither MWSS nor Maynilad Water has proven any breach of the Concession Agreement that would amount to either an MWSS Event of Termination or a Concessionaire Event of Termination and that the parties should continue with their respective obligations under the Concession Agreement, as amended. The Order further declared that MWSS and Maynilad Water should find extrajudicial solutions to resolve their differences.

Cease and Desist Orders (CDO) Dispute
On May 5, 2003, Maynilad Water received written notice of MWSS' CDO that purported, among others, to order Maynilad Water to cease and desist from assessing and collecting the amounts of ₱4.21 per cubic meter as Accelerated Extraordinary Price Adjustment (AEPA) and ₱4.07 per cubic meter as Foreign Currency Differential Adjustment (FCDA). Maynilad Water disputed the validity of the CDO and filed a dispute notice with the "Appeals Panel for Minor Dispute" (the Minor Panel"). In the meantime, while the issue relating to the validity of the CDO remained unresolved, Maynilad Water continue to bill its customers the tariff rate of ₱19.92 per cubic meter (inclusive of the ₱4.21 per cubic meter as AEPA and ₱4.07 per cubic meter as FCDA).

On February 18, 2005, the parties to the CDO dispute jointly requested the Minor Panel to terminate the arbitration proceedings in view of the settlement of their dispute. The Minor Panel issued an "Arbitral Award on Agreed Terms" on March 4, 2005 and terminated the arbitration proceedings.

The termination of the arbitration proceedings however, did not address the Maynilad Water's claim for missed revenues of about ₱6,685 million due to late implementation of the rebased tariff. This issue will be settled through the settlement procedures set out in the Concession Agreement.

Petition for Rehabilitation with Prayer for Suspension of Actions and Proceedings
On November 13, 2003, Maynilad Water filed with the Regional Trial Court of Quezon City, Branch 90 (the "Rehabilitation Court") a Petition for Rehabilitation with Prayer for Suspension of Actions and Proceedings. On November 17, 2003, the Rehabilitation Court issued a Stay Order providing among others, "staying enforcement of claims, whether for

money or otherwise and whether such enforcement is by court action or otherwise, against the petitioner, its guarantors and sureties not solidarily liable" with Maynilad Water.

Amendment No. 2

On March 16, 2004, Maynilad Water and MWSS entered into and executed Amendment No. 2 to the Concession Agreement. Under Amendment No. 2, MWSS with the concurrence of Maynilad Water and all Concessionaire Lenders/bank creditors has determined that the best available solution to all pending disputes and disagreements between Maynilad Water and MWSS is the quasi-reorganization and restructuring of Maynilad Water to be filed with the Securities and Exchange Commission (SEC), which would not constitute or result to a Concessionaire Event of Termination. The execution of this Amendment No. 2 is an indispensable requirement in order to give effect to the quasi-reorganization and restructuring of Maynilad Water.

The quasi-reorganization and restructuring of Maynilad Water shall be undertaken during the second quarter of year 2004 and as a result thereof, the present shareholders of Maynilad Water shall become minority shareholders, with the Development Bank of the Philippines (as trustee for MWSS) becoming the majority shareholder of Maynilad Water.

Based on Amendment No. 2, a revised 2004 Rehabilitation Plan was prepared and submitted to the Rehabilitation Court for approval. The submission was done with the concurrence of about 73% of Maynilad Water's creditors.

In June 2004, MWSS withdrew its consent to Amendment No. 2, as a result of the Supreme Court (SC) decision allowing MWSS to draw in full the US$120 million Stand By Letter of Credit Performance Bond (the "Performance Bond" or "SBLC") of Maynilad Water. Maynilad Water and its shareholders disagreed with MWSS's withdrawal and reserved all of their rights and remedies.

Rehabilitation Plan

On August 6, 2004, the Rehabilitation Court ordered Maynilad Water to submit a revised rehabilitation plan based on full draw of performance bond within a non-extendible period of thirty (30) days or until September 6, 2004 ("the Order"). Maynilad Water then entered into consultations with its creditors and with MWSS and, pursuant to a memorandum dated July 12, 2004 issued by the National Economic Development Authority (NEDA) (the "NEDA Memorandum"), Maynilad Water also consulted with the Department of Finance (DOF).

On September 9, 2004, in support of the rehabilitation petition, Maynilad Water, its shareholders, MWSS and the DOF set out their intents in a Memorandum of Understanding (the "MOU") relating to the restructuring of: (i) the financial obligation of Maynilad Water with various banks; and (ii) the unpaid Concession Fees of Maynilad Water under the Concession Agreement. As an integral part of the said restructuring, the parties also set out in the MOU their intended mechanics by which MWSS will acquire from certain creditors a transitional equity interest in Maynilad Water based on the following interdependent key elements: (a) implementation of full draw on the US$120 million Performance Bond of Maynilad Water; (b) limitation of debt-to-equity conversions by MWSS; (c) avoidance of an early termination amount liability for the government; (d) resumption of full payment to MWSS of concession fees; (e) preservation of the national privatization policy; (f) assurance that there will be no disruption of essential water services in the West Service Area; (g) providing a transitional government take-over from certain creditors; (h) a viable repayment plan for all creditors; (i) deficit reduction and write-off of shareholders' receivables from Maynilad Water; and (j) the corresponding implementation of tariff increase as already approved by MWSS on October 2002, with no new application for additional tariff increases.

As a result of the MOU, a revised rehabilitation plan (the "September 2004 Rehabilitation Plan") was submitted by Maynilad Water to the Rehabilitation Court on September 9, 2004, at the same time, Maynilad Water withdrew all previous rehabilitation plans that it had submitted. On September 29, 2004, the Rehabilitation Court ruled that there is merit to the Petition for Rehabilitation and referred the Petition, Annexes and the September 2004 Rehabilitation Receiver for evaluation and the latter to report not later than November 29, 2004. In a separate Order, the Rehabilitation Court extended the 180-day period up to February 28, 2005.

On December 17, 2004, MWSS sent a notice to Maynilad Water to draw on the US$120 million SBLC and a new tariff of ₱30.19 per cubic meter (average all-in) was published. Thereafter, on December 20, 2004, the Rehabilitation Receiver submitted its "Report and Recommendation" to the Rehabilitation Court, recommending approval of the September 2004 Rehabilitation Plan provided that Maynilad Water, its shareholders, and bank creditors, and MWSS, execute the implementing agreements on December 31, 2004. Otherwise, Maynilad Water should be ordered to submit a revised rehabilitation plan.

On January 1, 2005, Maynilad Water started implementing the rebased tariff rate of ₱30.19 per cubic meter. On January 14, 2005, MWSS sent a demand for the full US$120 million SBLC to Citicorp International Ltd. by way of a "Written Certification." In the meantime, Maynilad Water and its shareholders, the bank creditors and MWSS, failed to execute the implementing agreements that would give effect to the September 2004 Rehabilitation Plan. On January 20, 2005, MWSS received the entire proceeds of the US$120 million Performance Bond.

On January 31, 2005, a hearing was conducted by the Rehabilitation Court regarding the Rehabilitation Receiver's Report and Recommendation. Maynilad Water was ordered to submit a "Modified Rehabilitation Plan" on February 28, 2005. Maynilad Water failed to submit the said Modified Rehabilitation Plan on February 28, 2005. Accordingly, the Rehabilitation Court gave Maynilad Water a non-extendible deadline of April 29, 2005 to submit the Modified Rehabilitation Plan.

As of April 7, 2005, Maynilad Water is continuing its discussions with MWSS, bank creditors and shareholders to reach an agreement on the terms of restructuring of Maynilad Water's outstanding bank loans, and has still to submit its modified rehabilitation plan to the Rehabilitation Court.

The ability of Maynilad Water to continue as a going concern depends on the resolution of the matters discussed in the preceding paragraphs.

Condensed financial information of Maynilad Water before intercompany eliminations is as follows:

	2004	2003
	(In Millions)	
Property and equipment - net	**₱3,958**	₱3,800
Concession assets	**8,868**	8,691
Deferred foreign currency differential adjustments	**2,865**	2,805
Total assets	**20,106**	17,414
Loans payable	**7,071**	7,002
Payable to MWSS	**9,295**	6,870
Payable to stockholders and an affiliate	**1,875**	1,754
Capital deficiency	**(2,782)**	543
Revenue	**3,905**	4,970
Operating expenses	**(1,290)**	(1,806)
Net loss	**2,298**	1,648

In view of the material uncertainties in Maynilad Water, impairment losses on its concession assets, deferred foreign currency differential adjustments and property, plant and equipment, and additional provisions for losses on future estimated concession fee payments are not determinable.

Payable to MWSS represents suspended concession fee payments and related interest. Maynilad Water suspended concession fee payments starting March 2001. This resulted from various disputes with the MWSS-RO, which mainly involved, delay in completion of vital rehabilitation projects and rate rebasing mechanisms. These amounts bear interest at a rate equal to that of a 364-day Philippine Treasury Bill rate.

Maynilad Water is currently contesting certain charges billed by MWSS relating to: (a) the basis of the computation of interest; (b) MWSS cost of borrowings; and (c) additional penalties. With regards to the computation of interest, Maynilad Water maintains that the Concession Agreement, under Article 6.9, already provides for the method of computing interest such that when "*any amount payable to MWSS or the Regulatory Office by the Concessionaire hereunder is not paid when due, such amount shall accrue interest at a rate equal to that of a 364 days Philippine Treasury Bill for each day it remains unpaid*." Maynilad Water further maintains that the Concession Agreement does not contain any provision relating to either: (a) Maynilad Water having to shoulder the cost of any borrowings MWSS may incur during the life of the Concession; or (b) any penalties. Neither has Maynilad Water assumed the obligation to pay for such costs or penalties. Consequently, Maynilad Water has not provided for these additional charges. These disputed charges amounted to ₱2.14 billion and ₱1.15 billion as of December 31, 2004 and 2003, respectively.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue operating as a going concern. The ability of the Company to continue operating as a going concern depends on the success of its BSMP. As of December 31, 2004 and 2003, the carrying value of the Parent Company's investments and deposits in and advances to Bayantel have been reduced to zero with the remaining possible claims against the Parent Company credited to "Estimated liabilities from guarantees and commitments" account in the consolidated balance sheets. In addition, the Parent Company has significant investment in, including advances and guarantees to, Maynilad Water. As of December 31, 2004, the Parent Company's investments in and advances to (excluding those arising from guarantees on bridge loans) Maynilad Water have been reduced to a negative balance and zero, respectively. The ability of Maynilad Water to continue operating as a going concern depends on the approval of the Modified Rehabilitation Plan by the Rehabilitation Court. The resolution of guarantees of the Parent Company to Maynilad Water depends on the agreement of all of Maynilad Water's creditors on the restructured terms of its outstanding liabilities. All of the above foregoing factors indicate the existence of material uncertainties which raise substantial doubt about the ability of the Company to continue operating as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern and if the resolution of the guarantees has not been reached. Further, in view of the material uncertainties in Maynilad Water, impairment losses on its concession assets, deferred foreign currency differential adjustments and property, plant and equipment and additional provisions for losses on future estimated concession fee payments are not determinable.

2. Transfer of Media Interest and Presentation of Pro Forma Financial Statements

On April 17, 1997, the stockholders of the Parent Company approved the transfer of its ownership interest in ABS-CBN Broadcasting Corporation (ABS-CBN) and Sky Vision Corporation (SkyVision) to Lopez, a majority stockholder. On March 16, 1998, the National Telecommunications Commission (NTC) authorized the transfer of the ABS-CBN and SkyVision shares and on April 21, 1998, the transfer was approved by the creditors of the Parent Company, thus, the release of the ABS-CBN and SkyVision shares from the negative pledge covenants included in the terms of outstanding long-term commercial papers (LTCPs).

On April 24, 1998, the Parent Company transferred 553,457,304 shares of ABS-CBN at its market value of ₱16.50 per share equivalent to ₱9,132 million and 162,463,400 shares of SkyVision at its book value of ₱2.75 per share equivalent to ₱447 million in exchange for cash of ₱75 million and Convertible and Nonconvertible Notes (Notes) of ₱9,504 million (Convertible Notes of ₱5,504 million and Nonconvertible Notes of ₱4,000 million). The excess of the market value of ABS-CBN shares against its carrying value, amounting to ₱4,310 million, is credited to "Deferred income" and offset against the value of the Notes in the historical consolidated balance sheets (see Note 8). The Notes are secured by a pledge of the shares transferred and all subsequent shares distributed to Lopez by reason of its holdings of ABS-CBN and SkyVision shares. After the transfer, Lopez assumed all voting rights associated with the shares.

The Notes shall be repaid on April 24, 2013 (Maturity Date). Lopez has the option to redeem the Notes, at any time, subject to certain conditions provided for in the Agreement by both parties. The Parent Company has the option to convert the Convertible Notes into 553,457,304 shares of ABS-CBN and 162,463,400 shares of SkyVision (Conversion Quantity) at a conversion price of ₱5,504 million until Maturity Date or redemption date, as the case may be. The conversion quantity and price are subject to adjustments as provided for in the Agreement. The Notes may be repaid in whole or in part on or before the Maturity Date. The Notes shall terminate on any earlier date if the Convertible Notes shall have been properly converted and Lopez has satisfied its obligations with respect to all such Convertible Notes. The Notes bear an annual interest of 1.5%, subject to adjustments as agreed by both parties.

As of December 31, 2004 and 2003, the carrying value of the Notes amounted to ₱7,806 million and ₱7,779 million, respectively (see Note 8). The underlying shares totaled 446,800,022 ABS-CBN shares in 2004 and 2003 [including 568,415 Philippine Depositary Receipts (PDRs) in 2004 and 2003] and 162,463,400 SkyVision shares in 2004 and 2003.

ABS-CBN

ABS-CBN is incorporated in the Philippines. Its core business is television and radio broadcasting. Its subsidiaries and associates are involved in the following related businesses: video/audio post production, movie production, audio recording and distribution, film distribution, cable and direct-to-home television distribution and overseas telecommunication services. Other activities of the subsidiaries include merchandising and licensing, internet services and publishing.

The subsidiaries of ABS-CBN include ABS-CBN Center for Communication Arts, Inc., ABS-CBN FCLLZ Dubai, ABS-CBN Film Productions, Inc., ABS-CBN Global Ltd., ABS-CBN Consumer Products, Inc., ABS-CBN Europe Societa Per Azioni, ABS-CBN Interactive, Inc., ABS-CBN Publishing, Inc., Cinemagica, Inc., Creative Creatures, Inc., Creative Programs, Inc., Hongkong Club Ltd., Professional Services for Television & Radio, Inc., Sarimanok News Network, Inc., Shopping Network, Inc., Sky Films, Inc., Star Recording, Inc., Studio 23, Inc., Roadrunner Network, Inc., ABS-CBN International, Inc., E-Money Plus, Inc. and TV Foods Chefs, Inc.

Condensed consolidated financial information of ABS-CBN before intercompany eliminations is as follows:

	2004	2003 (As restated - see Note 3)
		(In Millions)
Receivables	**₱3,758**	₱3,789
Program rights - current and noncurrent	**1,677**	1,817
Property and equipment at cost - net	**10,650**	10,910
Total assets	**23,729**	22,226
Total liabilities	**10,299**	9,140
Stockholders' equity	**13,353**	13,086
Revenues	**13,575**	12,641
Operating expenses	**12,049**	10,386
Net income	**758**	1,008

SkyVision Notes

As of December 31, 2004 and 2003, the Parent Company has investments in Notes (see Note 8), advances to and options to purchase shares in SkyVision (see Notes 8 and 11) totaling ₱2,810 million and ₱2,894 million, respectively.

a. Consolidation of Central CATV, Inc. and Philippine Home Cable Holdings, Inc.

   On July 18, 2001, ABS-CBN along with the Parent Company and Lopez (collectively, the Benpres Group), signed a Master Consolidation Agreement (MCA) whereby it agreed with the Philippine Long Distance Telephone Company and Mediaquest Holdings, Inc. (collectively, the PLDT Group) to consolidate their respective ownership or otherwise their rights and interests in SkyVision and Unilink Communications Corporation (Unilink) under a holding company to be established for that purpose. Beyond Cable Holdings, Inc. (Beyond) was incorporated on December 7, 2001 as the holding company. SkyVision owns Central CATV, Inc. (Central) and Pilipino Cable Corporation (PCC), which in turn operate cable television systems in Metro Manila and key provincial areas under the tradenames “Sky Cable” and “Sun Cable.” Unilink owns Philippine Home Cable Holdings, Inc. (Home), which operates cable television systems in Metro Manila and key provincial areas under the tradename “Home Cable.”

Pursuant to the MCA, the Benpres Group and the PLDT Group shall, respectively, own 66.5% and 33.5% of Beyond upon the transfer of their respective ownership and rights and interests in SkyVision and Unilink into Beyond. Although the original agreement envisions the transfers to be completed within six months from signing date, or by January 18, 2002, the Benpres Group and the PLDT Group agreed to extend this Closing Date.

On December 3, 2003, the Benpres and PLDT Groups, together with the PLDT Beneficial Trust Fund, executed an Amendment Agreement to the MCA whereby additional closing conditions were incorporated into the MCA and wherein the Closing Date was extended until such time the parties shall have completed all conditions precedent under the MCA and the Amendment Agreement, including the share transfers described above.

The MCA also provides for the Benpres Group to sell 33.0% of Beyond to a strategic and/or financial investor. The sale of shares in Beyond is part of the BSMP.

In a separate Memorandum of Agreement (Agreement) executed on April 8, 2004, the major stockholders of Home and SkyVision have agreed to consolidate the ownership of their respective shares in Home and SkyVision and to combine the operations, assets and liabilities of Home and Central. Under the terms of the Agreement, the transfer of title to Home’s assets and liabilities including attendant risk and rewards, shall be retroactive to January 1, 2004. However, the Agreement allowed Home to continue its operations, and accordingly, full complimentary use of the property and equipment transferred to Central, until December 31, 2004, after which Home will cease commercial operations. The valuation of the assets and liabilities of Home as of December 31, 2003 was used as the basis for determining the consideration for the transfer.

In relation to the consolidation discussed above, a competitor broadcasting company filed a case before the NTC asking for NTC to declare as null and void the consolidation of the cable operating companies. On November 16, 2004, the NTC denied the motion for cease and desist order filed by the competitor broadcasting company. On November 30, 2004 the competitor broadcasting company filed a motion for reconsideration which is still pending resolution with the NTC. It is the opinion of the Company’s legal counsels that the case filed by the competitor broadcasting company is without legal basis.

b. Debt Restructuring

On October 17, 2003, the required majority of SkyVision and Central's creditors and a substantial majority of Home's creditors have signed the Memorandum of Agreement (MOA) covering the restructuring plan. The MOA provided the framework under which Central, SkyVision, Home and the creditors mutually agreed to restructure the outstanding debt obligations which became the basis for the Debt Restructuring Agreement, and consent to the consolidation and merger of Central, SkyVision and Home.

On July 2, 2004, the Debt Restructuring Agreement between Central and its creditors has been formalized in the Facility Agreement.

Under the provisions of the Facility Agreement, the outstanding principal on the existing secured and unsecured debt shall be paid by way of a term loan payable in seven years inclusive of a two-year grace period, in 20 unequal consecutive quarterly amortization immediately commencing from the end of the 9^{th} quarter from the value date.

The loan shall bear interest at a rate equivalent to MART 1 plus 1% or the 91-day Philippine Treasury bill, in the absence of MART 1. For the period covering the first three anniversaries of the value date, interest shall be paid only up to the equivalent of 5% per annum.

The Facility Agreement provided for certain requirements and restrictions with respect to, among others, the maintenance of certain financial ratios, capital expenditures and business acquisition outside the business plan, incurrence of additional debt, declaration of cash dividends, and significant changes in the ownership or control in Central.

c. Shareholders' Agreement

On August 15, 1997, SkyVision entered into a Shareholders' Agreement with Telemondial Holdings, Inc. (THI) granting the latter certain rights and privileges as a minority shareholder in PCC. THI owns 49% of PCC. Under the agreement, THI has the option, under certain conditions, to require SkyVision to purchase THI's shares in PCC. THI exercised this option on October 2, 2001. As provided in the agreement, a process whereby the value of THI's shares in PCC will be established has been set in motion. As of April 7, 2005, this valuation process has not been concluded.

3. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of the Company are as follows:

Basis of Preparation
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines under the historical cost basis.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Adoption of New Statements of Financial Accounting Standards (SFAS)/
International Accounting Standards (IAS)

The Company adopted the following SFAS/IAS, which became effective in 2004:

§ SFAS 12/IAS 12, "Income Taxes," prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax 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. For presentation purposes, the deferred tax assets previously classified as current assets in the balance sheets are now classified as noncurrent assets upon the adoption of the new accounting standard. The adoption of the standard has increased the Company's deficit by ₱24 million and ₱27 million as of January 1, 2004 and 2003, respectively and decreased deficit by ₱11 million as of January 1, 2002. Net loss decreased by ₱3 million in 2003 and increased by ₱38 million in 2002. The change in the policy is reflected in the financial statements on a retroactive basis.

§ SFAS 17/IAS 17, "Leases," prescribes the accounting policies and disclosures to apply to finance and operating leases. The standard requires the recognition of operating lease on a straight-line basis over the term of the lease. Leases, which resulted in the capitalization of finance leases as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessees. Previously, all leases were considered as operating leases and lease payments expensed on the basis of the terms of the lease agreements. The adoption of the standard has increased the Company's deficit by ₱13 million, ₱12 million and ₱6 million as of January 1, 2004, 2003 and 2002, respectively. Net loss increased by ₱1 million and ₱6 million in 2003 and 2002, respectively. The change in the policy is reflected in the financial statements on a retroactive basis.

New Accounting Standards Effective in 2005

New accounting standards based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), referred to as Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRSs), respectively, will become effective in 2005. The Company will adopt the following relevant new accounting standards effective January 1, 2005:

§ PAS 1, "Presentation of Financial Statements," provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments that management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the balance sheet and statement of income. The adoption of PAS 1 would result to additional disclosures and presentation changes in the consolidated financial statements.

- PAS 2, "Inventories," reduces the alternatives for measurement of inventories. It does not permit the use of the last-in, first-out (LIFO) formula to measure the cost of inventories. Adoption of PAS 2 will not have a material impact on the consolidated financial statements.

- PAS 8, "Accounting Policies," Changes in Accounting Estimates and Errors, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors. Adoption of PAS 8 will not have a material impact on the consolidated financial statements.

- PAS 10, "Events After the Balance Sheet Date," provides a limited clarification on the accounting for dividends declared after the balance sheet date. Adoption of PAS 10 will not have a material impact on the consolidated financial statements.

- PAS 16, "Property, Plant and Equipment," provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. In addition, the standard requires the inclusion of the cost of dismantling, removal or restoration of an asset as part of the cost of an item of property, plant and equipment. Such obligation should be recognized when the asset is installed or put into use.

  As discussed in Note 1, under the Concession Agreement, Maynilad Water is also tasked to manage, operate, repair, decommission and refurbish certain specified MWSS facilities in the West Service Area. Legal title to these assets remains with MWSS. The legal title to all property, plant and equipment contributed to the existing MWSS system by Maynilad Water during the concession period remains with Maynilad Water until the closing date (or on early termination date) at which time, all rights, titles and interest in such assets will automatically vest in MWSS. The property, plant and equipment shall be returned to MWSS in their then-current conditions at no charge to MWSS or Maynilad Water. Maynilad Water will further evaluate whether it has any obligation to dismantle, remove or restore the MWSS facilities in the West Service Area, and the property, plant and equipment it has contributed to the existing MWSS system.

  Subsidiaries of FPHC namely, First Gas Power Corporation (FGPC), FGP Corp. (FGP), and Bauang Private Power Corporation (BPPC) currently account for their respective power plants as a single asset and depreciate these over 25 years. Similarly, MNTC also accounts for its roads and tollways in operation as a single asset and depreciates these over 30 years, which represents the period of the concession. FGPC, FGP, BPPC and MNTC have not yet determined the significant components of the power plant assets and roads and tollways. Annual depreciation, however, is expected to increase since the estimated lives of certain significant components of the power plants and roads and tollways will be shorter than the current depreciable lives.

a. Power Purchase Agreement (PPAs)

   Under the PPAs, FGP and FGPC may have constructive obligations to decommission or dismantle their power plant assets at the end of their useful lives. If it is eventually determined that FGP and FGPC are liable for such costs, adoption of this standard would result in an increase in the net book value of property, plant and equipment and in the recognition of the related dismantlement or restoration liability. The difference between the increase in the net book values of property, plant and equipment and the amount of dismantlement or restoration liability would be adjusted against the beginning retained earnings. Subsequent annual depreciation would increase and an accretion expense recognized to bring the dismantlement or restoration liability to the required cash outflows at the time of decommissioning or dismantlement.

b. Build Operate Transfer Agreement (Project Agreement)

   Under the Project Agreement of BPPC, BPPC is required to transfer to National Power Corporation (NPC) all its rights, titles and interest on power plant complex at the end of the cooperation period free of liens created by BPPC and without any compensation. Accordingly, BPPC has no obligation to dismantle, remove or restore the power plant complex.

c. Supplemental Toll Operation Agreement (STOA)

   Under the STOA executed between MNTC, Philippine National Construction Corporation (PNCC) and with the Toll Regulatory Board (TRB) for the Government of the Republic of the Philippines, MNTC is required to transfer to the Government without cost, free from any and all liens and encumbrances, all its rights, titles and interests on the project roads on or before the concession period expires unless further extended pursuant to the STOA. Upon transfer of the project roads to the Government, MNTC is relieved from any liability, responsibility or obligations in regard to the future operation and maintenance thereof, with the sole exception of past default which MNTC may be required to rectify under this agreement, such as defects related to construction, and other liabilities to third parties occurring during the concession period. MNTC will vacate the premises completely. Accordingly, MNTC has no obligation to dismantle, remove or restore the project roads.

The Company and its associates are also currently reviewing the componentization of its assets to assess the impact of this standard.

§ PAS 17, “Leases,” provides a limited revision to clarify the classification of a lease of land and building and prohibits the expensing of initial direct costs in the financial statements of the lessors. Adoption of PAS 17 will not have a material impact on the consolidated financial statements.

§ PAS 19, “Employee Benefits,” requires the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires companies to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at balance sheet date. The Company will recognize the impact of the adoption of this standard on a retroactive basis and any transitional liability will be recognized in the beginning retained earnings of the earliest years presented. In view of the complexity of the new standard and unavailability of the required information, the impact of the above accounting standard is not yet known or reasonably estimable.

§ PAS 21, "The Effects of Changes in Foreign Exchange Rates," will result in the elimination of the capitalization of foreign exchange losses. The Company believes that the adoption of PAS 21 has no material effect on Maynilad Water since Maynilad Water is allowed to recover foreign exchange losses on its foreign currency denominated borrowings as part of customers' billings under the Amendment No. 1 of the Concession Agreement. On the other hand, the practice of First Philippine Holdings Corporation (FPHC) and its subsidiaries has been to capitalize foreign exchange adjustments arising from foreign currency-denominated obligations incurred to finance major construction projects. Foreign exchange adjustments incurred during the construction period that are regarded as adjustments to borrowing costs may qualify for capitalization as part of the costs of the constructed assets under SFAS 25, "Borrowing Costs", and, accordingly, will not be affected by the adjustments required under PAS 21 in 2005. However, the capitalized foreign exchange losses that are not regarded as adjustments to interest cost as defined in SFAS 25 will be written off as an adjustment to the beginning retained earnings of 2005.

The Parent Company opted for an early adoption of PAS 21 in 2001, thus, capitalized foreign exchange losses of certain of its associates and subsidiaries are reversed in the consolidated financial statements to align with the accounting policy of the Parent Company.

PAS 21 further requires a company to determine its functional currency and measure its results of operations and financial position in that currency. Translation procedures are specified when the presentation currency used for reporting differs from the company's functional currency.

The Philippine SEC in its SEC Memorandum Circular No. 14, Series of 2003, "Guidelines on Preparation of Functional Currency Financial Statements", gives qualified companies the option to file functional currency financial statements covering periods ending on or after October 31, 2003, subject to compliance with certain criteria. Based on the criteria set forth in the SEC Memorandum Circular, management believes that certain subsidiaries of FPHC, the First Gen Group, are qualified for functional currency reporting. On January 3, 2005, the First Gen Group filed an application with the SEC to be allowed to file functional currency financial statements. Subsequently on January 25, 2005, the SEC approved the application of the First Gen Group to file functional currency statements effective January 1, 2005. Upon adoption of PAS 21 and SEC Memorandum Circular No. 14, the reporting currency of the First Gen Group will be changed from Philippine peso to US dollar on a retroactive basis and prior year financial statements presented will be restated. The capitalized foreign exchange differences arising on the US Dollar denominated obligations will then be eliminated in the translation process without negatively affecting the retained earnings.

§ PAS 24, “Related Party Disclosures,” provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the total compensation of key management personnel by benefit types. Adoption of PAS 24 will result in additional disclosures in the financial statements.

§ PAS 27, “Consolidated and Separate Financial Statements,” and PAS 28, “Investment in Associates,” reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. The equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary’s financial statements to conform them to the parent’s accounting policies for reporting like transactions and other events in similar circumstances.

When the Parent Company adopts PAS 27 and PAS 28 in 2005, its investments in subsidiaries and associates will be accounted for under the cost method in the parent company financial statements. Accordingly, the adoption will increase (decrease) the following accounts:

	December 31	
	2004	2003
	(In Millions)	
Deficit, beginning	**(₱191)**	(₱1,665)
Carrying amount of investments	**72**	138
Share in cumulative translation adjustment of an associate	**(62)**	(53)
Net loss	**57**	1,474

§ PAS 32, “Financial Instruments: Disclosure and Presentation,” covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company’s financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company’s financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form. Required disclosures, as applicable, will be included in the 2005 financial statements.

§ PAS 39, “Financial Instruments: Recognition and Measurement,” establishes the accounting and reporting standards for recognizing and measuring the Company’s financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. A Company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

The Company and its associates has formed a team to quantify the impact of adopting PAS 32 and PAS 39 and are currently reviewing its existing processes and information systems to determine the required changes in order to comply with the requirements of PAS 32 and PAS 39. The Company expects an increased volatility in net earnings due to fair value accounting for financial instruments.

§ PFRS 1, "First-time Adoption of Philippine Financial Reporting Standards," requires an entity to comply with PFRS effective at the reporting date for its first PFRS financial statements. In particular, PFRS require an entity to do the following in the opening PFRS balance sheet that it prepares as a starting point for its accounting under PFRS: (a) recognize all assets and liabilities whose recognition is required by PFRS; (b) not recognize items as assets or liabilities if PFRS do not permit such recognition; (c) reclassify items that it recognized under previous generally accepted accounting principles as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under PFRS; and (d) apply PFRS in measuring all recognized assets and liabilities. Any additional disclosure requirements by this standard will be presented accordingly.

§ PFRS 2, "Share-based Payments," will result in a charge to net income for the cost of share options granted. The Company currently does not recognize an expense from share options granted but discloses required information for such options. Adoption of PFRS 2 will result in the recognition of compensation expense and corresponding credit to equity. In view of the complexity of the new standard and unavailability of the required information, the impact of the above accounting standard is not yet known or reasonably estimable.

§ PFRS 3, "Business Combination," will result in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. Upon adoption, goodwill of ₱52 million (₱339 million in pro forma) and negative goodwill amounting to ₱58 million as of December 31, 2004, will be subjected to impairment review and credited to income, respectively.

§ PFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the balance sheet and the results of discontinued operations to be presented separately in the statements of income. The adoption of PFRS 5 has no impact in the consolidated financial statements of the Company.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries as of December 31 of each year (see Note 9).

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

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the concolidated financial statements from the date of acquisition to the date of disposal.

The 2003 consolidated statements of operations and cash flows include the results of operations and cash flows of Customer Contact Center, Inc. (C-Cubed) for the seven months ended July 31, 2003, the date of its sale outside the Company.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Investments in Associates
The Company's investments in associates where the Company owns 20% to 50% or has significant influence, are accounted for under the equity method of accounting in the consolidated financial statements. These are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company's share in net assets of the associates, less any impairment in value. The statements of operations reflect the Company's share in the results of operations of the associates. Unrealized gains arising from transactions with its associates are eliminated against the investments accounts. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. The Company's investments in its associates include goodwill (net of accumulated amortization) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

Equity adjustment from translation represents the Company's share in the adjustments of an associate resulting from the translation into Philippine pesos of the foreign currency financial statements of the associate's investee.

Starting in 2001, the Parent Company discontinued the recognition of its 49% share in the losses of Bayantel. The accumulated losses in Bayantel has reduced the carrying value of the Parent Company's investment in Bayantel to zero. Additional claims against the Parent Company arising from its guarantees and commitments have been provided for and credited to "Estimated liabilities from guarantees and commitments" account in the consolidated financial statements. If Bayantel subsequently reports profits, the Parent Company will resume including its share of these profits only after its share of the profits equals the share of net losses not recognized.

In July 2003, Verizon, a 19% shareholder of Bayantel sold all of its equity interest in Bayantel to the Parent Company. As a result, the Parent Company's equity ownership in Bayantel increased from 49% to 68%. Lopez retained its direct equity ownership in Bayantel of 17%. On the same date, the Parent Company executed a Voting Trust Agreement with Lopez where the Parent Company assigned the voting rights of the additional 19% equity in Bayantel to Lopez while the Parent Company still has outstanding liabilities to Lopez. As a result, Lopez retained control of Bayantel and continues to consolidate Bayantel in its consolidated financial statements.

Investments in Notes issued by Lopez in connection with the transfer of shares in ABS-CBN and SkyVision (see Note 2) are accounted for in a manner similar to the equity method of accounting for investments. The investments in Notes is carried at cost, adjusted by the accretion of earnings (losses) on Notes (which represents the Parent Company's equity in net earnings or losses on the underlying shares), and interest accrued reduced by equity adjustments from translation, interest received and amortization (over five years) of the difference between the cost of the Notes and the Company's proportionate share on the underlying net assets of ABS-CBN and SkyVision at dates of acquisitions.

Minority Interest

The proportionate amount of the fair values of identifiable assets and liabilities upon acquisition of a consolidated subsidiary and any subsequent changes in equity of a consolidated subsidiary attributable to a minority shareholder's interest are shown separately as "Minority interest" in the consolidated balance sheets. A minority shareholder's interest in the net income of a subsidiary is shown separately as "Minority interest" in the consolidated statements of operations. Any losses applicable to a minority shareholder in a consolidated subsidiary in excess of the minority shareholder's equity in the subsidiary are charged against the minority interest to the extent that the minority shareholder has binding obligation to, and is able to, make good the losses.

Minority interest represents the interest in subsidiaries not held by the Company.

Other Investments

Other investments (included as part of "Other noncurrent assets" account in the consolidated balance sheets) are carried at cost, with adjustments for any significant and apparently permanent decline in value.

Goodwill

Goodwill represents the excess of the cost of the acquisitions over the fair value of identifiable net assets of a subsidiary or associate at the date of acquisition in the parent company financial statements. Goodwill is included in the carrying amount of the investments in subsidiaries and associates and is stated at cost less accumulated amortization and any impairment in value. Goodwill is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is amortized over a period of five years.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

- Revenue from water and sewerage services of Maynilad Water are recognized upon supply of water to the customers. Billings to customers consist of the following:

  a. Water Charges

     - Basic charges represent the basic tariff charged to consumers for the provisions of water services. The basic tariff is subject to CPI, EPA and rate rebasing adjustments. The weighted average basic tariff of the four consumer groups (residential, semi-business, commercial and industrial) is ₱7.18 per cubic meter. EPA represents a fixed ₱1.00 per cubic meter surcharge as defined in the Concession Agreement.

     - Accelerated EPA (AEPA) represents the tariff adjustment granted on October 20, 2001 until December 31, 2002, for the recovery of realized foreign exchange losses as of December 31, 2000. The weighted average AEPA of the four consumer groups is ₱4.21 per cubic meter.

     - Foreign Currency Differential Adjustment (FCDA) is the mechanism that allows Maynilad Water to recover foreign exchange losses on a current basis beginning January 1, 2002 until the Expiration Date. The weighted average FCDA of the four consumer groups is ₱4.07 per cubic meter.

     - Maintenance service charge represents a fixed monthly charge per connection. The charge varies depending on the meter size.

  b. Environmental charge represents 10% of the water charges.

  c. Sewerage charge represents 50% of the water charges for all consumers connected to Maynilad Water's sewer lines.

- Revenue from call center services of C-Cubed is recognized when service is rendered in accordance with the terms of the contracts. Facilities and shared services fee is recognized under the accrual basis in accordance with the terms of the agreements.

- Equity in net earnings. The Company's proportionate share in the net income (loss) of its associates is recognized in accordance with the equity method of accounting for investments.

- Accretion of earnings and interest in notes. The Company's proportionate share in the net income (loss) of ABS-CBN and SkyVision is recognized in a manner similar to equity method of accounting for investments.

- Interest income. Revenue is recognized as the interest accrues.

- Dividend income. Revenue is recognized when the shareholder's right to receive payment has been established.

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 are subject to an insignificant risk of change in value.

Marketable Equity Securities
Investments in marketable equity securities are stated at the lower of aggregate cost or market value determined at balance sheet date. The amount by which aggregate cost exceeds market value is accounted for as a valuation allowance. Changes in the valuation allowance are included in the statements of operations. Realized gains and losses from the sale of current marketable securities are included in the consolidated statements of operations.

Receivables
Receivables are recognized and carried at original invoice amounts less an allowance for any uncollectible amount. An estimate of doubtful accounts is made when collection of the full amount is no longer probable.

Allowance for doubtful accounts is maintained at a level considered adequate to provide for potential losses on receivables. The level of this allowance is based on management's evaluation of collection experience and other factors that may affect collectibility.

Materials and Supplies
Materials and supplies of Maynilad Water are valued at the lower of cost or net realizable value. Cost is determined using the weighted average method. Net realizable value is the current replacement cost.

Property and Equipment
Property and equipment, except land, is stated at cost less accumulated depreciation, amortization and any impairment in value (see policy on "Impairment of Assets"). Land is stated at cost.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period the costs are incurred. 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 and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives or the term of the lease in the case of leasehold improvements, whichever is shorter:

Leasehold improvements	5 years
Buildings and improvements	20 years
Water meter, instrumentation, tools and other equipment	5 to 25 years
Other equipment	4 to 5 years

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Rehabilitation work in progress represents costs incurred from contracts entered into by Maynilad Water for preliminary survey and investigation services, technical services and capital works to facilitate the implementation of the Concession. Rehabilitation work in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Concession Assets

A lease where a lessor retains substantially all the risk and benefits of ownership of the asset is classified as operating lease. The Company accounts for the concession assets (presented as "Concession Assets" in the consolidated balance sheets) covered in the concession agreement with MWSS as an operating lease. Concession assets of Maynilad Water represent the concession and commencement fees paid in obtaining the exclusive right to supply water and sewerage services to the West Service Area. Concession fee payments denominated in foreign currencies are translated to Philippine peso using the bid rate. The excess of actual concession fee payments over the amount of concession fees translated using the bid rate of ₱26.30 (for concession fees up to December 31, 2004) and ₱51.86 (for concession fees starting January 1, 2005) is deferred as part of "Deferred FCDA" (included under "Other noncurrent assets" account in the consolidated balance sheets). This will be recovered through billings to customers as approved by the MWSS Board of Trustees (BOT) under Amendment No. 1 of the Concession Agreement. Concession assets are amortized on the basis of the total nominal value of estimated concession fee payments over the projected billable water revenue during the concession period from the start of commercial operations. See also policy on "Impairment of Assets."

Impairment of Assets

The carrying values of property and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment and other long-lived assets is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arms-length transaction. 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 assessment 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, if any, are recognized in the consolidated statements of operations. The carrying values of property and equipment, concession assets and deferred FCDA may be impaired if Maynilad Water does not obtain an approval of the Modified Rehabilitation Plan from the Rehabilitation Court. Due to the uncertainties in Maynilad Water discussed in Note 1, impairment losses for these assets are also not determinable.

Provisions
Provisions are recognized when the Company 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. Due to the uncertainties in Maynilad Water discussed in Note 1, additional provision for losses on future estimated concession fee payments are not yet determinable.

Foreign Currency Transactions
Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Exchange rate differences arising from the settlement and restatement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the consolidated statements of operations in the year in which they arise.

Foreign exchange differentials of Maynilad Water arising from foreign currency transactions are credited or charged to operations, except for the following foreign exchange differentials, which are deferred (shown as “Deferred FCDA” in “Other noncurrent assets” account) and will be recovered through billings to customers as approved by the MWSS BOT under Amendment No. 1 of the Concession Agreement:

- Restatement of foreign currency denominated loans;

- Excess of actual concession fee payments over the amounts of concession fees translated using the original bid rate. As discussed in Note 1, Maynilad Water was granted a new tariff of ₱30.19 per cubic meter based on 2003 prices adjusted for CPI, effective January 1, 2005. However, foreign exchange differential for 2004 will be recovered through FCDA. As a result of the new tariff of ₱30.19, the base rate for concession fee payments starting January 1, 2005 increased from the original bid rate of ₱26.30 to ₱51.86.

- Excess of actual interest payments translated at exchange spot rates on settlement dates over the amounts of interest translated at drawdown rates; and

- Excess of actual payments of other financing charges relating to foreign currency-denominated loans translated at exchange spot rates on settlement dates over the amount of other financing charges translated at drawdown rates.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset of an associate (accounted for under the equity method). Capitalization of borrowing costs commences when the activities to prepare the asset of the associate 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.

Income Tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and associates. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Retirement Costs
The Company has funded, noncontributory, defined benefit retirement plans, covering their permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Assets Held in Trust
Assets which are owned by MWSS but are used in the operations of Maynilad Water under the Concession Agreement are not reflected in the consolidated balance sheets but are carried as Assets Held in Trust (see Note 28).

Loss Per Share
Basic loss per share is calculated by dividing the net loss for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

For the purpose of calculating diluted loss per share, the net loss attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares from conversion of Perpetual Convertible Bonds. The number of common shares is the weighted average number of common shares plus the weighted average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares. For calculation purposes, Perpetual Convertible Bonds are deemed to have been converted into common shares at the date of the issue of the convertible bonds.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Subsequent Events
Subsequent events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Subsequent events that are not adjusting are disclosed in the notes to financial statements when material.

Business Segments
For management purposes, the Company is organized into 2 major operating businesses, namely, investment holdings and water distribution. The Company's remaining activities, which consist of customer contact service in 2002 and information service provider, are shown in aggregate as services. Financial information on business segments is presented in Note 29.

Pro Forma Consolidated Financial Statements
For purposes of the pro forma consolidated financial statement presentation, the significant accounting policies applicable to ABS-CBN are summarized below:

Change in Accounting for Revenue Recognition
In 2004, ABS-CBN International (ABS North America) and ABS-CBN FC-LLZ Dubai (ABS Dubai) changed its accounting policy for revenue recognition. Previously, ABS North America and ABS Dubai recognized the loss on sale of decoders outright. Effective January 2004, loss on sale of decoders is deferred and amortized over the average subscription period of three years on the basis that the installation and sale of decoders has no stand alone value and was aggregated and recognized ratably over the longer of contract term or the estimated customer service life. The change in accounting policy has no material impact on ABS-CBN's financial statements.

Program Rights
Rights to programs available for broadcast are initially capitalized at the amounts of total license fees under the covering license agreements and are charged to income on the basis of program usage. To the extent that a given future expected benefit period is shorter than the initial estimates, ABS-CBN writes off the purchase price or the license fee sooner than anticipated.

ABS-CBN classifies its program rights into current and noncurrent amounts based on estimated year of usage.

Property and Equipment
Property and equipment are carried at cost (including capitalized interest), less accumulated depreciation and any impairment in value.

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

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Land improvements	10 years
Building and improvements	20 to 40 years
Water meter, instrumentation, tools and other equipment	5 to 25 years
Television, radio, movie and auxiliary equipment	10 to 15 years
Other equipment	3 to 5 years

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Construction in progress represents equipment under installation and building under construction and are stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and put into operational use.

Tax Credits
Tax credits from government airtime sales availed under Presidential Decree No. 1362 (shown as part of “Other noncurrent assets” account in the pro forma consolidated balance sheets) are recognized in the books upon actual airing of government commercials and advertisements.

Deferred Charges
Gain or loss on sale of decoders which has no stand alone value without the subscription revenues are aggregated and recognized ratably over the longer of subscription contract term or the estimated customer service life. These are presented as part of “Other noncurrent assets-others” account in the pro forma consolidated balance sheets.

Production and Distribution Business
Production and distribution business (shown as part of “Other noncurrent assets” account in the pro forma consolidated balance sheets) is recorded at acquisition cost. This is amortized on a straight-line method over a period of 10 to 20 years.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

§ Airtime revenue is recognized as income on the dates the advertisements are aired.

§ The fair values of barter transactions are included in airtime revenues and the related accounts. These transactions represent advertising time exchanged for program materials, merchandise or service.

§ Other broadcasting-related revenues are short-messaging-system (SMS)/text-based revenues, sale of news materials and ABS-CBN-produced programs which are recognized upon billing and delivery.

§ Net sales and services of subsidiaries include:

a. Subscription fees and channel lease revenue, which are recognized under the accrual basis in accordance with the terms of the agreements. Subscription revenues received in advance (shown as unearned income under the "Accounts payable and other current liabilities" account in the pro forma consolidated balance sheets) is deferred and recognized as revenue over the period during which the service is performed.

b. Telecommunications revenue, which are recognized when earned. These are stated net of the share of the other telecommunications carriers, if any, under existing correspondence and interconnection agreements. Interconnection fees and charges are based on agreed rates with the other telecommunications carriers.

Income from prepaid phone cards are realized based on actual usage hours or expiration of the unused value of the card, whichever comes earlier. Income from prepaid card sales from which the related services have not been rendered as of balance sheet date, is presented under "Accounts payable and other current liabilities" account in the pro forma consolidated balance sheets.

c. Sales of inventories, which are recognized, net of discounts, when delivery has taken place and transfer of risks and rewards has been completed.

d. Revenue from services, which are recognized when services are rendered.

§ Rental income is recognized on a straight-line basis over the lease term.

§ Dividends are recognized when the shareholders' right to receive payment has been established.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at balance sheet date. All differences are taken to the statements of operations.

Financial statements of foreign subsidiaries that are not integral to the operations of ABS-CBN are translated at year-end exchange rates with respect to the balance sheet, and at the average exchange rates for the year with respect to the statements of operations. Resulting translation differences are included in equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the statements of operations as a component of the gain or loss on disposal.

Operating Lease
Operating lease payments are recognized as an expense in the statements of operations on a straight-line basis over the lease term.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production 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 ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

For financial reporting purposes, interest on loans used to finance the construction of a multi-storey building project is capitalized as part of cost of the building during the construction period. For income tax reporting purposes, such interest is treated as deductible expense during the period the interest was incurred.

Financial Instruments
ABS-CBN enters into long-term foreign currency swap agreements to manage its foreign currency exposures relating to certain long-term foreign currency-denominated loans. Translation gains or losses on foreign currency swaps entered into as hedges are computed by multiplying the swap notional amounts by the difference between the spot exchange rate prevailing on balance sheet date and the spot exchange rate on the contract inception date (or the last reporting date). The resulting translation gains or losses are offset against the translation losses or gains on the underlying foreign currency-denominated liabilities.

ABS-CBN also enters into interest rate swaps to manage its interest rate exposures on underlying floating-rate loans. Swap costs accruing on foreign currency swaps and interest rate swaps that are currently due to or from the swap counterparties are charged to current operations. Mark-to-market values of the foreign currency swaps are not included in the determination of net income but are disclosed in the relevant note to these financial statements.

Business Segments
For purposes of pro forma information, ABS-CBN is considered as another operating business. ABS-CBN recognizes three business activities - broadcasting, cable and satellite and other businesses. Other business activities of ABS-CBN include movie production, consumer products and services. ABS-CBN operates in three major geographical areas namely, the Philippines, United States and other locations (which include Middle East and Milan). Financial information on ABS-CBN's business and geographical segments is presented in Note 29.

4. Cash and Cash Equivalents

	Historical		Pro Forma	
	2004	2003	**2004**	2003
	(In Millions)			
Cash on hand and in banks	**₱336**	₱257	**₱1,436**	₱1,058
Short-term investments	**2,900**	1,737	**3,091**	2,517
	₱3,236	₱1,994	**₱4,527**	₱3,575

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to 90 days depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. Short-term investments with original maturities of three months to one year are shown separately in the 2004 consolidated balance sheets.

5. Marketable Equity Securities

As of December 31, 2004 and 2003, the market value of marketable equity securities, based on year-end quoted market prices, exceeds the carrying value by ₱994 million and ₱167 million, respectively.

Subject to valuation, the Parent Company intends to divest all of its marketable equity securities to raise cash as part of the BSMP.

6. Receivables

	Historical		Pro Forma	
	2004	2003	**2004**	2003 (As restated - see Note 3)
	(In Millions)			
Trade	**₱1,337**	₱1,306	**₱5,226**	₱4,861
Others	**106**	88	**450**	556
	1,443	1,394	**5,676**	5,417
Less allowance for doubtful accounts	**769**	699	**1,244**	933
	₱674	₱695	**₱4,432**	₱4,484

Trade receivables include unbilled receivables of Maynilad Water amounting to ₱284 million in 2004 and ₱275 million in 2003.

7. Other Current Assets

	Historical		Pro Forma	
	2004	2003	**2004**	2003 (As restated - see Note 3)
	(In Millions)			
Prepaid taxes and others	**₱246**	₱108	**₱709**	₱467
Advances to contractors and suppliers	**110**	58	**110**	58
	₱356	₱166	**₱819**	₱525

8. Investments at Equity

	Historical		Pro Forma	
	2004	2003 (As restated - see Note 3)	**2004**	2003 (As restated - see Note 3)
	(In Millions)			
Investments in shares of stock of associates	**₱14,403**	₱13,067	**₱14,633**	₱13,424
Investments in Notes (see Note 2)	**7,806**	7,779	**–**	–
Investments in Share Option Acquisition Rights (SOARs)	**1,100**	1,100	**1,100**	1,100
	23,309	21,946	**15,733**	14,524
Advances to associates (see Note 18)	**3,276**	3,100	**3,279**	3,100
Valuation allowance	**(3,040)**	(2,858)	**(3,040)**	(2,858)
Net	**236**	242	**239**	242
	₱23,545	₱22,188	**₱15,972**	₱14,766

Investments in Shares of Stock of Associates

Associates of the Company are all incorporated in the Philippines. The details and movements of investments in shares of stock of associates follow:

		Historical		Pro Forma	
	Principal Activities	**2004**	2003 (As restated - see Note 3)	**2004**	2003 (As restated - see Note 3)
		(In Millions)			
FPHC, 46.47%-owned	Power generation and distribution	**₱11,533**	₱10,199	**₱11,533**	₱10,199
Rockwell Land Corporation (Rockwell), 24.50%-owned *	Real estate	**1,483**	1,424	**1,483**	1,424
FPIDC, 62%-owned**	Infrastructure	**978**	1,045	**978**	1,045
Professional Services, Inc. (Medical City), 18.61%-owned in 2004 and 21.66%-owned in 2003	Health care	**391**	376	**391**	376
Bayantel, 68% owned	Telecommunications	**–**	–	**–**	–
SkyVision, 22.32%-owned***	Cable television	**–**	–	**185**	311
Bayantrade Dotcom, Inc., 10.25%-owned	E-commerce	**–**	5	**–**	5

	Principal Activities	Historical 2004	Historical 2003 (As restated - see Note 3)	Pro Forma 2004	Pro Forma 2003 (As restated - see Note 3)
			(In Millions)		
Corporate Information Solutions, Inc., 49%-owned	Computer services	**₱–**	₱–	**₱–**	₱–
Others	Film distribution, broadcasting and information service provider	**18**	18	**63**	64
		₱14,403	₱13,067	**₱14,633**	₱13,424

* *An additional 24.50% of Rockwell is owned by FPHC.*
** *An additional 38% of FPIDC is owned by FPHC. However, effective in 2003, voting rights of FPHC is equivalent to 67% while voting rights of the Parent Company is 33%.*
*** *Includes 10.17% interest of ABS-CBN in SkyVision.*

	Historical 2004	Historical 2003 (As restated - see Note 3)	Pro Forma 2004	Pro Forma 2003 (As restated - see Note 3)
		(In Millions)		
Acquisition costs	**₱7,280**	₱7,280	**₱8,209**	₱8,209
Accumulated equity in net earnings:				
Balance at beginning of year, as previously reported	**5,825**	3,824	**5,253**	3,551
Share in the effect of change in accounting for income tax and leases (see Note 3)	**(24)**	(27)	**(24)**	(27)
Balance at beginning of year, as restated	**5,801**	3,797	**5,229**	3,524
Equity in net earnings of investees (net of goodwill amortization of ₱100 million in 2004 and ₱212 million in 2003 for historical and ₱120 million in 2004 and ₱225 million in 2003 for pro forma)	**1,586**	1,959	**1,459**	1,660
Gain on dilution of equity interest	**–**	45	**–**	45
Dividends received	**(254)**	–	**(254)**	–
Balance at end of year	**7,133**	5,801	**6,434**	5,229
Share in equity adjustment from translation (net of ₱9 million allowance for impairment in value of investment in Bayantel)	**(10)**	(14)	**(10)**	(14)
	₱14,403	₱13,067	**₱14,633**	₱13,424

Accumulated losses of subsidiaries and associates included in the Parent Company's deficit as of December 31, 2004 and 2003 amounted to ₱3,445 million and ₱3,480 million, respectively.

Investments in associates include unamortized negative goodwill of ₱58 million and ₱158 million as of December 31, 2004 and 2003, respectively.

A discussion on the Company's major associates follow:

a. FPHC

FPHC is involved in investment holdings of subsidiaries and associates that are into power generation and power-related activities, roads and tollways operations, real estate development, construction, securities transfer services and financing infrastructure development. Significant contracts and commitments of FPHC are discussed in Note 26(d).

Condensed consolidated financial information of FPHC follow:

	2004	2003
	(In Millions)	
Accounts receivable	**₱14,553**	₱14,114
Property, plant and equipment - net	**48,469**	47,822
Investments and deposits	**12,856**	15,001
Total assets	**127,935**	117,542
Accounts payable and other current liabilities	**12,081**	12,341
Long-term debt, including current portion	**60,969**	59,465
Stockholders' equity	**24,341**	21,462
Revenue	**39,892**	38,424
Costs and expenses	**30,160**	28,857
Net income	**3,313**	3,840

b. Manila Electric Company (MERALCO)

MERALCO is a 26.82%-owned associate of FPHC. MERALCO is involved in the distribution and supply of electricity covering 23 cities and 88 municipalities in Metro Manila and in six provinces surrounding Metro Manila.

Prior to the enactment of RA No. 9136, the "Electric Power Industry Reform Act of 2001", in 2001, MERALCO was subject to the ratemaking regulations and regulatory policies of the Energy Regulatory Board (ERB). On June 8, 2001, RA No. 9136 was signed into law. RA No. 9136 abolished the ERB and created in its place the Energy Regulatory Commission (ERC).

On June 9, 2003, President Gloria Macapagal-Arroyo signed into law RA No. 9209, "Manila Electric Company Franchise", which took effect on June 28, 2003. The law granted MERALCO a 25-year franchise to construct, operate and maintain an electric distribution system and consolidated MERALCO's 50 franchises servicing 23 cities and 88 municipalities in Metro Manila and in six surrounding provinces.

Unbundling Rate Case for Filing with the SC

On April 14, 2000, MERALCO filed with the ERB an application for a ₱0.30 per kwh rate increase.

In accordance with Section 36 of RA No. 9136, the ERC required the NPC and all the distribution utilities to file their unbundled rate charges within six months from the effectivity of RA No. 9136. On December 26, 2001, MERALCO filed with the ERC a petition for its unbundled rate charges. The filing was made in accordance with the Unbundling Filing Requirement issued by the ERC on October 30, 2001.

On June 17, 2002, the ERC issued an Order consolidating MERALCO's ₱0.30 per kwh rate increase petition (ERC Case No. 2001-646) with its unbundling petition (ERC Case No. 2001-900), in order to simplify and expedite the resolution of the rate cases. All records and proceedings of the rate increase application were deemed consolidated with that of the unbundling. The hearings on the consolidated petitions were terminated on December 19, 2002.

On March 20, 2003, the ERC promulgated its Decision on the consolidated rate petitions. MERALCO filed on April 9, 2003 a Motion for Reconsideration (MR) of the March 20, 2003 Decision. On May 30, 2003, the ERC issued an Order resolving MERALCO's motion. It also approved MERALCO's unbundled tariffs that will result in a total increase of ₱0.17 per kwh over May 2003 levels, after giving effect to the reduction of rates ordered by the SC in April 2003. This consists of ₱0.0835 per kwh increase reflecting higher generation and transmission charges and a ₱0.0865 per kwh increase in MERALCO -related charges (distribution, supply, and metering). The tariff increase was implemented in June 2003.

Certain consumer groups appealed to the Court of Appeals (CA) the above ERC Decision of March 20, 2003 and Order dated May 30, 2003 authorizing the tariff increase. On July 22, 2004, the CA rendered its Decision annulling and setting aside the ERC Decision and Order and remanding the case to ERC for further proceedings. It also ordered ERC to direct the Commission on Audit (COA) to audit the books, records and accounts of MERALCO. On August 17, 2004, MERALCO filed an MR of the said CA decision. On January 24, 2005, the CA denied MERALCO's MR.

On February 9, 2005, MERALCO filed with the SC a motion for a 30-day extension of the period within which to file a petition for the review of the CA decision. The ERC filed with the SC on February 11, 2005 a petition asking the SC to set aside the CA Decision and Resolution and reinstating and affirming its Decision and Order on MERALCO's consolidated petitions. The Lawyers Against Monopoly and Poverty (LAMP) filed on January 31, 2005 a Manifestation with the ERC asking that MERALCO be directed to refrain from collecting and to recall the bills issued for the new unbundled rates. This was denied for lack of merit by ERC in an Order dated February 3, 2005.

In the opinion of MERALCO's external counsels, MERALCO and the ERC have raised valid and compelling arguments that could set aside the CA decision. The factual and legal grounds are the following:

i. There appears to be no basis to the CA's findings that the COA did not conduct an audit of MERALCO's books, records and account in connection with its rate application;

ii. ERC has stated in no uncertain terms that although ERC relies upon COA's recommendations, the COA audit is not a pre-requisite to the ERC's exercise of its exclusive and original jurisdiction to fix the rates of power distribution utilities; and

iii. Having established that a COA audit was indeed conducted, and that the COA's findings were in fact considered, the factual findings of the ERC which were based on substantial evidence should therefore be binding upon the CA pursuant to Section 10 of Rule 43 of the 1997 Rules of Civil Procedure.

Although MERALCO filed a petition for review with the SC on March 11, 2005, MERALCO has provided for these losses amounting to ₱9,824 million, [its tax effect of ₱3,144 million is presented as part of "Provision for (benefit from) income tax" account in MERALCO's 2004 statement of income]. Such amount represents MERALCO's best estimate of probable losses in the event of a final and executory adverse decision on the case. The Parent Company's share in these losses amounted to ₱549 million in 2004 and is offset against equity in net earnings in 2004.

SC Decision on the ₱0.167 Refund

On January 28, 1994, the ERB granted MERALCO a provisional rate relief of ₱0.184 per kwh in ERB Case No. 93-118. However, on February 16, 1998, the ERB rendered its decision disallowing income tax as an operating expense over the protestation of MERALCO on the ground that this was not only the existing practice but also sanctioned by the ERB in other cases. MERALCO appealed to the CA which reversed the decision of the ERB in the February 26, 1999 decision of the said appellate court. In February 2000, the oppositors to the rate relief elevated the case to the SC which in turn reversed the CA decision on November 15, 2002 and ordered MERALCO to refund to its customers ₱0.167 per kwh starting with MERALCO's billing cycles beginning February 1994 until February 1998 or correspondingly credit the same against future consumption. MERALCO filed a Motion for Reconsideration but the SC denied it with finality on April 30, 2003.

The loss arising from the SC decision amounted to ₱28,728 million, which represents the amount of refund to its customers of ₱0.167 per kwh for billing cycles from February 1994 to December 31, 2002. Refunds covering the periods February 1994 to December 31, 2001, amounting to ₱23,817 million, net of tax effect for 1999 of ₱1,126 million, were accounted for as an extraordinary loss by MERALCO in the 2002 statement of income. The Company's share of this ordinary loss amounted to ₱2,097 million. Revenues from January 1, 2002 to December 31, 2002 of ₱2,652 million (net of tax effect of ₱1,133 million) were reflected by MERALCO as a reduction of the 2002 income from ordinary operations. The Company's share for 2002 amounted to ₱242 million. MERALCO's revenues for the first five months of 2003 were adjusted to reflect a rollback of its distribution rates totaling approximately ₱1,595 million.

MERALCO proposed to the ERC that the refund will be carried out in four phases in such a way that would first satisfy MERALCO's obligations to its more numerous, but smaller and, mainly residential customers, who account for MERALCO's lower income accounts. In June 2003, the ERC ordered the implementation of Phase I, which involves refunds to residential and general service customers who consumed 100 kwh or less of electricity in April 2003 (or in their last complete month's bill for services whose contracts with MERALCO have been terminated). On July 11, 2003, the ERC ordered the implementation of Phase II, which involves refunds to residential and general service customers who consumed 101 to 300 kwh in April 2003 (or in their last complete month's bill for services whose contracts with MERALCO have been terminated), from September 2003 to February 2004. For Phase III, which involves refunds to residential and general service customers who consumed more than 300 kwh of electricity per month, MERALCO implemented this starting January 2004 over a period of twelve months.

For Phase IV, which will involve refunds to commercial and industrial customers and all other customers not covered by Phases I - III, MERALCO has submitted its proposal to the ERC last September 3, 2004. MERALCO's proposed scheme covers two sub-phases. Phase IV-A will cover small commercial and industrial customers, flat streetlights and government hospitals and metered streetlights with contracted demand of less than 400 kwh. Phase IV-B will cover medium, large, very large and extra large commercial and industrial customers and government hospitals and metered streetlights with contracted demand greater than or equal to 400 kwh. MERALCO has proposed to commence Phase IV in 2005 through fixed credit to bills over a period of 36 and 63 months, for Phases IV-A and IV-B, respectively. In addition, qualified customers under Phase IV-B will be given the option to receive a financial instrument with a liquidity feature.

On January 5, 2005, the ERC issued an order to implement Phase IV-A starting January 2005 until June 2006 and ordered MERALCO to submit specific details on the implementation of Phase IV-B. In addition, MERALCO was informed by the Bureau of Internal Revenue (BIR) that it will impose a withholding income tax on the refund to customers under Phase IV and appoint MERALCO as its withholding agent. MERALCO, thus, filed a Manifestation and Motion with the ERC last January 28, 2005, requesting for an indefinite deferment of the implementation of Phase IV-A until BIR releases the revenue regulation and to allow MERALCO to prepare for compliance with the BIR guidelines. MERALCO is still evaluating its implementation proposal for Phase IV-B and will submit this to ERC soon.

As of December 31, 2004, the balance of the refund for each of the four phases follows:

Phase	Beginning Balance	Cash Payments	Application against Billings	Balance
		(Amounts in Millions)		
I	₱627	₱74	₱133	₱420
II	1,387	206	831	350
III	4,905	235	3,578	1,092
IV	18,689	–	–	18,689
	₱25,608	₱515	₱4,542	₱20,551

Based on MERALCO's proposed scheme, customer refunds estimated to be made the following year amounted to ₱5,409 million is shown as part of current liabilities in the 2004 balance sheet of MERALCO.

Certain consumer groups have asked the ERC to clarify whether or not MERALCO will be required to refund an additional ₱6,200 million to ₱6,800 million in interest on the excess charges MERALCO had collected. MERALCO has obtained an external legal opinion interpreting the SC Decision as not requiring MERALCO to pay interest. Furthermore, Phases I, II, III and IV-A of the refunds were approved by the ERC without provisions for the payment of interest on the refund amount. The ERC in its Order dated January 6, 2005 ruled that there was no legal basis for the payment of interest on the refund.

GMA Network, Inc. and RGMA Network, Inc. joined the National Association of Electricity Consumers for Reforms (Nasecore) in requesting the ERC to compel MERALCO to pay interest on the refund to customers. But in an Order dated December 21, 2004, the ERC denied their motions on the grounds that: i) the SC's judgment on the refund did not provide for payment of interest; and that ii) it had long become final and executory and can no longer be altered or amended.

On February 2, 2005, GMA Network, Inc. and RGMA Network, Inc. filed a Petition in the CA praying that the Order dated December 21, 2004 of the ERC be reversed and set aside and that a writ of execution be issued ordering MERALCO to immediately pay the refunds due to them plus legal interest of 6% per annum from February 1994 to April 9, 2004 when the Decision of the SC became final and executory and 12% per annum from April 9, 2004 until fully paid. Citing jurisprudence on the matter, they argued that prior to April 9, 2004, there was no loan or forbearance of money to speak of yet and so the legal interest is fixed by law at 6% per annum. When the SC's Decision became final and executory, the rate of legal interest is raised to 12% per annum as the obligation is equivalent to a forbearance of credit.

On March 28, 2005, MERALCO received the resolution of the CA requiring it to comment on the petition within ten (10) days from receipt. MERALCO asked for additional period of ten (10) days or up to April 17, 2005 within which to file its Comments or Opposition.

Rate Increase Application dated October 10, 2003

On October 10, 2003, MERALCO filed an application at the ERC seeking to adjust MERALCO's rate by an average ₱0.1358 per kwh based on (a) an independent appraisal of Meralco's 2002 assets appraised at an exchange rate of ₱53.096:US$1.00; (b) MERALCO's audited 2002 financial statements; and (c) MERALCO's weighted average cost of capital (WACC) for 2002.

On November 27, 2003, the ERC approved an average provisional adjustment in MERALCO-related charges of ₱0.12 per kwh, effective January 2004. Under the implementing rules and regulations (IRR) of RA No. 9136, the ERC has up to one year from the issuance of the provisional approval within which to issue a final decision on MERALCO's petition.

On December 23, 2003, a consumer group and three party list congressmen filed a petition at the SC seeking a revocation of the November 27, 2003 provisional increase granted by the ERC. In a Resolution dated January 13, 2004, the SC ordered ERC and MERALCO to observe the status quo prevailing before the filing of the petition. After the conduct of oral arguments on the petition on January 27, 2004, the parties were given twenty (20) days or until February 16, 2004 to file their respective memoranda before the SC. On June 15, 2004, the SC laid down its Decision where it set aside the Order of the ERC granting provisional rate increase and directed the ERC to comply with Section 4(e), Rule 3 of the IRR of RA No. 9136, particularly the publication and comment requirements. Both the ERC and MERALCO reasonably filed their separate motions for reconsideration which remain pending resolution by the SC.

Contingencies

§ Contingent Asset

(1) MERALCO has a contingent asset amounting to ₱2,411 million consisting of under-recoveries for Transmission Charge of ₱1,198 million and for System Loss Charge of ₱1,213 million. These under-recoveries accumulated in the absence of an adjustment mechanisms for these two charges when the unbundled rates were implemented. While an automatic adjustment mechanism for the system loss charge was authorized by ERC for implementation starting November 2004, the ERC has not prescribed a recovery mechanism for the under-recoveries on the system loss charge that MERALCO has incurred for prior periods. ERC released last February 24, 2005 the draft guidelines for the adjustment of transmission rates by distribution utilities prospectively. The draft guidelines, which are still for comments of distribution companies, prescribe the manner for the annual adjustment of transmission charges and the recovery/return to customers of any under/over-recovery in the transmission charge. The draft guidelines, however, do not prescribe a recovery mechanism for the under-recoveries in transmission charges for the prior periods.

(2) MERALCO has a contingent asset for overpaid income taxes for the years 1994 to 1998 and 2000 to 2001 estimated at ₱7,119 million. MERALCO has filed its claim for the recovery of the excess income taxes for the said taxable years. The BIR has issued the letters of authority for the examination of the MERALCO's books during the said period, including submission of the documents.

§ Contingent liabilities

(1) Realty tax assessment

MERALCO is being assessed by certain local governments units (LGUs) for realty taxes on certain properties of MERALCO such as its electric poles, wires, insulators, and transformers. One of these cases is now with the CA. The CA rendered its decision declaring that the electric poles, wires, insulators and transformers are subject to realty tax under the Local Government Code. An adverse decision on any of these cases may result to tax assessments by all LGUs within the franchise areas of MERALCO.

To address the possible liabilities for these realty taxes, MERALCO filed an application with the ERC for a recovery mechanism which is pending hearing.

(2) Local franchise tax

MERALCO was assessed by certain local governments for local franchise tax during the period when such LGUs were not qualified to assess. In the opinion of management of MERALCO and its legal counsel, MERALCO has strong legal grounds to contest the assessments. At any rate, even assuming that the said assessments are upheld by the courts, the principle adopted by the ERC is that franchise tax payments are recoverable from the rates. The unbundled rates approved by the ERC allow MERALCO to recover the current franchise tax payments. The ERC is in the process of validating the same.

The final outcome of (1) and (2) cannot presently be determined, and no provision for the assessment has been made in the financial statements of MERALCO. The Company has likewise not provided for their share in the possible liabilities.

MERALCO accounts for its utility plant at revalued amounts. Appropriate adjustments have been made on the financial statements of MERALCO to conform to the cost method followed by the Company in accounting for property and equipment. The adjustment to conform to the cost method decreased MERALCO's net loss in 2004 by ₱585 million, increased net income in 2003 by ₱704 million, decreased net loss in 2002 by ₱993 million and decreased total assets by ₱18,695 million in 2004.

Condensed consolidated financial information of MERALCO before adjustment to reverse the effect of revaluation on utility plant follows:

	2004	2003 (As restated - see Note 3)
	(In Millions)	
Utility plant and others at revalued amounts - net	**₱88,378**	₱86,525
Construction in progress	**4,623**	6,188
Investments and advances	**5,870**	6,467
Receivables	**28,468**	23,802
Land held for future development - net	**1,068**	973
Total assets	**162,929**	153,754
Notes payable	**442**	5,816
Accounts payable and other current liabilities	**26,469**	19,647
Long-term debt, including current portion	**25,992**	25,281
Stockholders' equity	**35,295**	36,953
Revenue	**151,614**	134,964
Operating expenses	**140,794**	128,966
Net income (loss)	**(2,610)**	1,267

c. Rockwell

Rockwell is engaged in real estate development, sale or lease of residential and commercial lots and units and lease of mall facilities. In May 2002, Rockwell commenced construction of its new condominium project - the "Manansala". The project broke ground in May 2002 with 98% market take up as of December 31, 2004. Rockwell expects to turnover the "Manansala" units by December 2005. In January 2004, Rockwell launched the "Joya Lofts and Towers," a new residential tower at the east side of Rockwell Center. The project broke ground on August 27, 2004, with 49% market take up valued at ₱2,800 million as of December 31, 2004. As of December 31, 2004, construction activities only involve excavation works. Total estimated cost to complete the project amounted to ₱4,700 million. Rockwell expects to complete the "Joya Lofts and Towers" by 2008.

Condensed financial information for Rockwell, before intercompany elimination, follows:

	2004	2003 (As restated - see Note 3)
	(In Millions)	
Cash and cash equivalents	**₱359**	₱60
Trade and other receivables - net	**2,188**	2,036
Investments in real properties - at cost	**3,606**	4,014
Total assets	**10,263**	10,129
Loans payable	**2,366**	2,209
Estimated liability for project development	**692**	1,630
Total liabilities	**4,216**	4,321
Total stockholders' equity	**6,048**	5,809
Revenues	**2,705**	2,236
Cost and expenses	**2,343**	2,085
Net income	**239**	130

d. FPIDC

FPIDC is 62%-owned by the Parent Company and 38%-owned by FPHC (see discussion on "Investment in SOARs").

Shareholders' Agreement

FPIDC, acting as the corporate implementing arm of its shareholders, namely, the Parent Company and FPHC, obtains noninterest-bearing (interest-bearing prior to 2001) cash advances from its shareholders, then partly advances the same to its subsidiary, MNTC, for the payment of construction costs and other project development costs incurred in relation to the North Luzon Expressways (NLE) Tollway Project and working capital requirements of MNTC.

On December 16, 1999, the Parent Company, FPIDC, Lopez, and FPHC entered into a shareholders agreement wherein the parties agreed that any shareholder advances extended by FPIDC to MNTC which would earn interest at the cost of capital rate shall be treated as shareholders loans accruing interest at the cost of capital rate compounded monthly (until full payment). The total interest incurred and to be incurred on such shareholder loans shall be payable to the Parent Company and FPHC at a ratio of 70:30. It was also agreed that the Parent Company shall be entitled to reimbursement for corporate expenses paid for the benefit of FPIDC.

On December 13, 2001, the Parent Company, FPIDC and FPHC made amendments to their original shareholders agreement and agreed that in the event a new investor acquires or purchases shares in MNTC prior to the initial drawdown under its financing agreements [see Note 26(e)], no interest shall accrue on shareholder loans extended by the Parent Company and FPHC effective January 31, 1999.

Condensed consolidated financial information of FPIDC follows:

	2004	2003 (As restated - see Note 3)
	(In Millions)	
Total assets	**₱20,361**	₱13,572
Advances from related parties	**2,608**	1,594
Loans payable	**11,130**	6,638
Total liabilities	**17,275**	10,376
Stockholders' equity	**3,086**	3,196
Toll revenues	**42**	36
Costs and expenses	**332**	244
Net loss	**108**	76

Investments in Notes

The details and movements of investments in Notes in the historical consolidated financial statements follow:

	2004	2003 (As restated - see Note 3)
	(In Millions)	
ABS-CBN	**₱7,815**	₱7,710
SkyVision	**(9)**	69
	₱7,806	₱7,779
Acquisition costs	**₱8,694**	₱8,694
Deferred income (see Note 2)	**(4,280)**	(4,280)
	4,414	4,414
Accumulated accretion on earnings and interest:		
Balance at beginning of year, as previously reported	**3,302**	3,134
Share in effect of change in accounting for leases (see Note 3)	**(13)**	(12)
Balance at beginning of year, as restated	**3,289**	3,122
Accretion of earnings on Notes (net of goodwill amortization of ₱52 million)	**173**	33
Interest on Notes	**134**	134
Dividends received	**(285)**	–
Balance at end of year	**3,311**	3,289
Equity adjustment from translation	**81**	76
	₱7,806	₱7,779

Undistributed accretion of earnings on ABS-CBN and SkyVision Notes included in the Parent Company's deficit as of December 31, 2004 and 2003 amounting to ₱3,311 million and ₱3,289 million, respectively, are not currently available for dividend declaration until these are distributed by the subsidiaries and associates.

Investments in Notes include unamortized goodwill of ₱52 million and ₱104 million as of December 31, 2004 and 2003, respectively.

The Parent Company's effective ownership in the underlying shares of the Notes follows:

	Percentage of Ownership
ABS-CBN	58.06
SkyVision	17.23

ABS-CBN Notes

On September 29, 1999, ABS-CBN Holdings Corporation (50%-owned by Lopez), offered 132 million Philippine Depositary Receipts (PDRs) relating to 132 million ABS-CBN shares. Each PDR grants the holders, upon payment of the exercise price and subject to certain other conditions, delivery of one ABS-CBN share or the sale of and delivery of the proceeds of such sale of one ABS-CBN share. The ABS-CBN shares are still subject to ownership restrictions on shares of corporations engaged in mass media and ABS-CBN may reject the transfer of shares to persons other than Philippine nationals. The PDRs may be exercised at any time from October 7, 1999 until the expiry date as defined in the terms of the offering. Any cash dividends or other cash distributions in respect of the underlying ABS-CBN shares shall be applied by ABS-CBN Holdings Corporation towards the payment of operating expenses and any amounts remaining shall be distributed pro rata among outstanding PDR holders in the form of interest. The PDRs were listed in the Philippine Stock Exchange (PSE) on October 7, 1999.

The ABS-CBN Notes held by the Parent Company were amended from time to time to allow for conversion into shares or into PDRs. As of December 31, 2004 and 2003, the Company holds 568,415 PDRs. The remaining PDRs are shown as part of the carrying value of "Notes."

Investment in SOARs
On December 23, 2002, the Parent Company, FPIDC, FPHC and Lopez entered into a Memorandum of Agreement (MOA) wherein the parties agreed to the following terms:

1) The Parent Company shall assign ₱1,100 million worth of advances made to FPIDC in favor of FPHC for a total consideration of ₱1,100 million (Acquired Advances).

2) FPHC shall issue a promissory note (Note) in the same amount, payable to the Parent Company in 18 months after the date of the issue, subject to conversion into a 15-year loan under such terms that may be agreed with the Parent Company. FPHC shall have the right, but not the obligation, to apply any portion of the Note against the corresponding amount of the SOAR issue price and deposit for the relevant SOAR, as discussed below.

3) FPHC shall convert a portion of its original advances and a portion of the Acquired Advances into such number of shares of stocks of FPIDC which will result in a combined ownership between the Parent Company and Lopez of not more than 33-1/3% of FPIDC.

The MOA also states that until after the Acquired Advances has been fully paid, FPHC undertakes that, upon each conversion of any portion of the Acquired Advances into shares of FPIDC, FPHC shall create SOARs on such shares in favor of the Parent Company for a consideration of ₱0.10 per share plus a ₱99.90 deposit, which will be applied towards the purchase price of the Underlying Share. The SOARs shall entitle the Parent Company to (1) delivery of one share of stock of FPIDC which has been converted from the Acquired Advances upon the occurrence of any Trigger Event, as defined in the MOA, (2) delivery of the net proceeds arising from the sale of such Underlying Share in the event of a sale by FPHC, and (3) rights to dividends or other economic benefits relating to or arising out of each Underlying Share.

Also on December 23, 2002, the Parent Company and FPHC entered into a Deed of Assignment to execute the said MOA and FPHC issued a promissory note to the Parent Company in consideration of the assignment.

As of December 31, 2004, 6,791,800 SOARs were issued in favor of the Parent Company.

Upon completion of the recapitalization of FPIDC in the third quarter of 2003, the Parent Company owns 62% of the issued and outstanding shares of FPIDC representing 33% of the voting rights and 62% of the economic interest by virtue of the 29% equivalent voting rights granted to FPHC.

Advances to Associates
Details of this account in the historical consolidated balance sheets follow:

	2004	2003
	(In Millions)	
Bayantel	**₱3,040**	₱2,858
Others	**236**	242
	3,276	3,100
Valuation allowance	**(3,040)**	(2,858)
	₱236	₱242

9. Investments in Subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and the subsidiaries listed in the following table:

		Effective Percentage of Ownership	
	Principal Activities	Historical	Pro forma
Maynilad Water (see Note 1)	Water distribution	59.00	59.00
Bayanmap Corporation	Information service provider	51.00	51.00
ABS-CBN and Subsidiaries (see Note 2)	Broadcasting	–	58.06

The above-mentioned subsidiaries are all incorporated in the Philippines.

In August 2003, the Parent Company sold its 100% investment in C-Cubed. The move is in line with the Parent Company's asset divestment program aimed at further strengthening its liquidity position and focusing on its core businesses which are broadcasting and power generation. The Stock Purchase Agreement was signed on July 30, 2003 and the closing deliverables were completed on August 1, 2003.

10. **Property and Equipment**

Historical

	2004									2003
	Land	Leasehold Improvements	Buildings and Improvements	Water Meter, Instrumentation, Tools and Other Equipment	Television, Radio, Movie and Auxiliary Equipment	Other Equipment	Rehabilitation Work in Progress	Construction in Progress	Total	Total
	(In Millions)									
Cost:										
Beginning of year	₱24	₱22	₱156	₱2,110	₱–	₱399	₱2,211	₱–	₱4,922	₱4,497
Additions	–	31	–	363	–	31	–	–	425	447
Disposals	–	–	–	–	–	(8)	–	–	(8)	(22)
Reclassification	–	59	–	–	–	–	(59)	–	–	–
End of year	24	112	156	2,473	–	422	2,152	–	5,339	4,922
Accumulated depreciation and amortization:										
Beginning of year	–	14	25	650	–	266	–	–	955	687
Depreciation and amortization	–	17	10	197	–	54	–	–	278	269
Disposals	–	–	–	–	–	(8)	–	–	(8)	–
Reclassification	–	–	–	–	–	–	–	–	–	(1)
End of year	–	31	35	847	–	312	–	–	1,225	955
Net Book Value	₱24	₱81	₱121	₱1,626	₱–	₱110	₱2,152	₱–	₱4,114	₱3,967

Pro Forma

	2004									2003 (As restated - see Note 3)
	Land	Leasehold Improvements	Buildings and Improvements	Water Meter, Instrumentation, Tools and Other Equipment	Television, Radio, Movie and Auxiliary Equipment	Other Equipment	Rehabilitation Work in Progress	Construction in Progress	Total	Total
	(In Millions)									
Cost:										
Beginning of year	₱650	₱22	₱9,558	₱2,110	₱4,930	₱3,005	₱2,211	₱171	₱22,657	₱21,472
Additions	–	31	7	363	273	334	–	331	1,339	1,273
Disposals	–	–	(26)	–	(1)	(55)	–	–	(82)	(88)
Transfers	–	–	–	–	–	–	–	–	–	–
Reclassification	5	59	204	–	94	108	(59)	(411)	–	–
End of year	655	112	9,743	2,473	5,296	3,392	2,152	91	23,914	22,657
Accumulated depreciation and amortization:										
Beginning of year	–	14	892	650	3,698	2,192	–	–	7,446	5,953
Depreciation	–	17	377	197	371	464	–	–	1,426	1,530
Reclassification and amortization	7	–	(6)	–	8	(9)	–	–	–	(36)
Disposals	–	–	–	–	–	(56)	–	–	(56)	–
End of year	7	31	1,263	847	4,077	2,591	–	–	8,816	7,447
Net Book Value	₱648	₱81	₱8,480	₱1,626	₱1,219	₱801	₱2,152	₱91	₱15,098	₱15,210

In view of the material uncertainty in Maynilad Water discussed in Note 1, impairment losses on property and equipment are also not determinable.

In the pro forma consolidated financial statements, property and equipment of ABS-CBN with a carrying amount of ₱9,952 million as of December 31, 2004 was pledged as collateral to secure ABS-CBN's long-term debt (see Note 16).

Unamortized borrowing costs of ABS-CBN capitalized as part of property and equipment amounted to ₱1,050 million and ₱1,089 million as of December 31, 2004 and 2003, respectively. No borrowing costs were capitalized beginning 2002.

11. Other Noncurrent Assets

	Historical		Pro Forma	
	2004	2003	**2004**	2003 (As restated - see Note 3)
		(In Millions)		
Concession assets	**₱8,869**	₱8,692	**₱8,869**	₱8,692
Deposits (see Notes 1, 2 and 18)	**4,833**	4,833	**4,833**	4,833
Deferred FCDA and STM (see Notes 1 and 19)	**2,864**	2,805	**2,864**	2,805
Noncurrent receivable from SkyVision	**–**	–	**1,800**	–
Tax credits				
With tax credit certificates (TCCs)	**–**	–	**1,809**	1,746
Pending issuance of TCCs but supported by telecast orders	**–**	–	**55**	167
Unamortized debt issue cost (see Note 12)	**–**	–	**291**	93
Production and distribution business - net (see Notes 12 and 18)	**–**	–	**618**	666
Deferred charges and others (net of amortization of ₱92 million in 2004)	**–**	–	**243**	10
Miscellaneous deposits and others	**87**	70	**464**	315
	16,653	16,400	**21,846**	19,327
Less allowance for decline in value of deposits and investments at cost	**2,222**	2,222	**2,222**	2,222
	₱14,431	₱14,178	**₱19,624**	₱17,105

a. Concession Assets

This account consists of concession fee payments and commencement fee. The movement of this account follows:

	2004	2003
	(In Millions)	
Cost:		
Balance at beginning of year	**₱9,181**	₱8,034
Additions during the year	**833**	1,147
Balance at end of year	**10,014**	9,181
Accumulated amortization:		
Balance at beginning of year	**489**	–
Amortization during the year (see Note 19)	**656**	489
Balance at end of year	**1,145**	489
	₱8,869	₱8,692

Concession fee pertains to the fees paid and payable by Maynilad Water to MWSS up to December 31, 2004 (see Notes 1, 26 and 31).

As discussed in Note 1, the base rate for concession fee payments starting January 1, 2005 was increased from ₱26.30 to ₱51.86. This change increased the amortization of concession assets by ₱170.40 million in 2004.

The aggregate concession fee (exclusive of the contributions to the budgets of MWSS and the Regulatory Office) pursuant to the Concession Agreement is equal to the sum of the following:

a. 90% of the aggregate peso equivalent due under any MWSS loan which has been disbursed prior to the Commencement Date, including MWSS loans for existing projects and the Umiray-Angat Transbasin Project (UATP), on the relevant payment date set forth on the pertinent schedule of the Concession Agreement;

b. 90% of the aggregate peso equivalent due under any MWSS loan designated for the UATP which has not been disbursed prior to the Commencement Date on the relevant payment date set forth on the pertinent schedule of the Concession Agreement;

c. 90% of the local component costs and cost overruns related to the UATP in accordance with the pertinent schedule of the Concession Agreement;

d. 100% of the aggregate peso equivalent due under any MWSS loan designated for existing projects, which have not been disbursed prior to the Commencement Date and have been either awarded to third party bidders or been elected by the Company for continuation in accordance with the pertinent sections of the Concession Agreement; and

e. 100% of the local component costs and cost overruns related to the existing projects in accordance with relevant schedule of the Concession Agreement.

The schedule of estimated future concession fee payments based on the Concession Agreement follows:

	In Original Currency		
Year	Foreign Currency Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Peso Equivalent*
	(In Millions)		
2005	$46.95	₱157.52	₱2,799.87
2006	30.30	24.78	1,730.06
2007	27.44	13.64	1,557.96
2008	25.81	12.50	1,465.09
2009-2022	185.32	12.20	10,442.01
	$315.82	₱220.64	₱17,994.99

** Peso equivalent translated using the December 31, 2004 exchange rate of ₱56.28:US$1.*

In view of the material uncertainty discussed in Note 1, impairment losses on concession assets and additional provisions for losses on future estimated concession fee payments are also not determinable.

b. Deposits

Deposits are payments for options to purchase shares of stock of Bayantel (₱2,217 million) and SkyVision (₱2,616 million) from Lopez at a pre-agreed price. The options will be exercised by the Parent Company when the underlying shares of the associates are listed in the PSE in connection with its initial public offering.

c. Deferred FCDA and STM

Movements of deferred FCDA are as follows:

	2004	2003
	(In Millions)	
Deferred foreign exchange losses:		
Balance at beginning of year	**₱7,674**	₱3,385
Additions during the year	**1,120**	4,289
Balance at end of year	**8,794**	7,674
Recoveries through customer billings:		
Balance at beginning of year	**4,869**	2,784
Additions during the year (see Note 19)	**1,061**	2,085
Balance at end of year	**5,930**	4,869
	₱2,864	₱2,805

As discussed in Note 1, on May 5, 2003, Maynilad Water received a CDO notice from MWSS asking Maynilad Water to cease the charging of the amount of ₱4.21 per cubic meter as AEPA and ₱4.07 per cubic meter as FCDA. Maynilad Water disputed the validity of the CDO issued by MWSS, and continues to bill its customers the AEPA and FCDA while the related issue remained unsolved. Total billings for AEPA and FCDA as of December 31, 2004 in excess of the deferred foreign exchange losses amounted to ₱1.41 billion shown as "Deferred credits" in the 2004 consolidated balance sheet. The 2003 consolidated balance sheet was restated to conform with the 2004 presentation on deferred credits. Deferred credits as of December 31, 2003 amounted to ₱207 million.

The above deferred credits as well as Maynilad Water's claims for missed revenues (see Note 1) and the FCDA discussed in Note 1 will be settled through the settlement procedures set out in the Concession Agreement.

In view of the material uncertainty discussed in Note 1, impairment losses on deferred FCDA are also not determinable.

d. ABS-CBN's Noncurrent Receivable from Sky Vision

On June 30, 2004, Sky Vision and Beyond (Issuer) issued a convertible note (the "Note") to ABS-CBN amounting to US$30 million. ABS-CBN's long-term receivable from SkyVision, including accrued interest receivable of ₱112.8 million as of December 31, 2004 is presented as part of "Other noncurrent assets" account in the pro-forma financial statements. The note is subject to interest of 13% per annum and will mature on June 30, 2006. The principal and accrued interest as of maturity date shall be mandatorily converted, based on the prevailing U.S Dollar to Philippine Peso exchange rate on Maturity Date, at a conversion price equivalent to a twenty percent (20%) discount of: (a) the market value of the Shares, in the event of a public offering of the Issuer before Maturity Date; (b) the valuation of the Shares by an independent third party appraiser that is a recognized banking firm, securities underwriter or one of the big three international accounting firms or their Philippine affiliate jointly appointed by the Benpres Group and PLDT Group pursuant to the MCA dated July 18, 2001 as amended or supplemented.

e. Tax Credits

Tax credits represent claims of ABS-CBN from the government arising from airing of government commercials and advertisements. Pursuant to Presidential Decree No. 1362, these will be collected in the form of TCCs which ABS-CBN can use in paying for its import duties and taxes on its broadcasting equipment. ABS-CBN expects to utilize these tax credits within the next 10 years.

f. Production and Distribution Business

Production and distribution business consist of the production and distribution business of a subsidiary of ABS-CBN and the distribution business in Middle East. The distribution business in Middle East represents the unamortized portion of the goodwill that arose from the sponsorship between Arab Digital Distribution (ADD) and ABS-CBN FCLLZ Dubai. This agreement grants ABS-CBN the right to operate in the Middle East with ADD as Saudi sponsor. The goodwill is amortized over a period of 10 years.

12. Intangible Assets

In the pro forma consolidated balance sheets, movement of program rights (shown separately in the consolidated balance sheets), production and distribution business and unamortized debt issue cost follows:

	Program Rights	Production and Distribution Business	Unamortized debt issue cost
Balance at January 1, 2004	₱1,817	₱666	₱93
Additions	747	–	306
Amortization and write-off during the period	(887)	(48)	(108)
Balance at December 31, 2004	1,677	618	₱291
Less current portion	873	–	–
Noncurrent portion	₱804	₱618	₱291

13. Bank Loans

	Historical		Pro Forma	
	2004	2003	**2004**	2003
	(In Millions)			
Maynilad Water				
Dollar denominated loans ($100 million)	**₱5,649**	₱5,580	**₱5,649**	₱5,580
Peso denominated loans	**1,422**	1,422	**1,422**	1,422
Bayanmap				
Peso-denominated loans	**5**	5	**5**	5
ABS-CBN				
Unsecured peso-denominated loans	**–**	–	**467**	221
	₱7,076	₱7,007	**₱7,543**	₱7,228

Maynilad Water
Annual interest rates range from 1.20% to 5.40% in 2004 and 1.90% to 4.50% in 2003 for dollar denominated loans, and from 13.75% to 14.75% in 2004 and 13.50% to 14.75% in 2003 for peso denominated loans. Maynilad Water secured these loans as a bridge financing while negotiating for a long-term loan of US$350.00 million. These loans are guaranteed by its stockholders, the Parent Company and Suez, through its own parent company, Suez, S. A. either alone or together (but on a several basis).

On February 28, 2002, Maynilad Water, together with the Parent Company and Suez as guarantors, entered into a Third Amendment Agreement relating to the US$100.00 million bridge loan which amended, among others, the Maturity Date of the bridge loan to December 16, 2002, subject to certain conditions specified in the Third Amendment Agreement. The Banks, however, have the put option to require Maynilad Water to pay all or a portion of the bridge loan on any day after August 31, 2001 until Maturity Date, provided that the relevant Bank(s) has (have) given not less than two business days prior written notice, as defined in the Third Amendment Agreement.

On September 17, 2002, Maynilad Water, together with the Parent Company and Suez as guarantors, entered into a Fourth Amendment Agreement relating to the US$100.00 million bridge loan which amended, among others, the Maturity Date of the bridge loan to March 17, 2003, subject to certain conditions specified in the Fourth Amendment Agreement.

In view of the on-going arbitration on the early termination of the Concession Agreement, as discussed in Note 1, Maynilad Water formally suspended payments of all principal and interest amortizations on the bridge loan on October 7, 2003. As a result of the suspension of payment, the entire unpaid principal amount of the bridge loan and interest thereon as of October 7, 2003 totaling ₱4.45 billion or US$80.48 million became due and demandable. On October 22, 2003, Suez paid ₱1.92 billion (US$34.57 million) for its 40% share as guarantor on the bridge loan, including interest.

On October 31, 2003, Credit Agricole Indosuez Merchant Bank Asia Ltd (Caimbal) terminated its Credit Facility Agreement with Maynilad Water and demanded the payment of the principal outstanding loan amount, together with the accrued interests due up to November 6, 2003 totaling ₱1.20 billion (US$21.81 million). On November 6, 2003, Maynilad Water made a partial payment amounting to ₱0.11 billion (US$2.13 million). The remaining balance of the principal outstanding loan of ₱1.09 billion (US$19.68 million) was paid in full by Suez on November 20, 2003.

Caimbal subrogates Suez for ₱1.10 billion (US$19.71 million), including interest for the period November 7-20, 2003, into the rights towards Maynilad Water.

As of December 31, 2004 and 2003, Maynilad Water's liability to Suez arising from Suez's payment of a portion of Maynilad Water's debt amounted to ₱3.06 billion and ₱3.02 billion, respectively (see Note 18). These amounts are reflected as part of dollar-denominated loans.

The portion of the dollar-denominated bridge loan guaranteed by the Parent Company totaling ₱2.59 billion and ₱2.56 billion has remained outstanding as of December 31, 2004 and December 31, 2003, respectively. As discussed in Note 1, these guarantees of the Company will be resolved upon agreement of all of Maynilad Water's creditors on the restructured terms of its outstanding liabilities.

The original terms of the loans provide for the payment of penalties should there be an event of default on interest and/or principal. Default interests are computed at 2% per annum for bridge loan and from 12% to 36% for local loans from the date of default. Total penalties accrued for the years ended December 31, 2004 and December 31, 2003 amounted to ₱320.82 million and ₱8.07 million, respectively.

ABS-CBN

In the pro forma consolidated financial statements, ABS-CBN loans represent peso-denominated loans obtained from local banks which bear average annual interest rates of 11.02% in 2004 and 9.92% in 2003.

In 2003, this includes the ₱100 million loan from Standard Chartered Bank where ABS-CBN received a notice of default. This was fully paid in 2004.

14. Accounts Payable and Other Current Liabilities

	Historical		**Pro Forma**	
	2004	2003	**2004**	2003 (As restated - see Note 3)
		(In Millions)		
Trade	**₱804**	₱598	**₱1,690**	₱1,294
Accrued production cost, taxes and other expenses	**2,246**	1,927	**3,788**	3,638
Income tax payable	**–**	–	**–**	124
Accrued interest and other current liabilities (see Notes 13 and 24)	**2,726**	1,297	**3,502**	1,645
	₱5,776	₱3,822	**₱8,980**	₱6,701

Trade payables include liabilities of Maynilad Water to MWSS relating to UATP materials and assets held in trust (see Note 28) used in Maynilad Water's operations amounting to ₱296 million and ₱237 million as of December 31, 2004 and 2003, respectively.

15. **Estimated Liabilities from Guarantees and Commitments**

	2004	2003
	(In Millions)	
Balance at beginning of year	**₱10,358**	₱8,557
Restatement of dollar-denominated guarantees	**150**	–
Payments during the year	**(67)**	(68)
Provisions during the year for guarantees and commitments in Bayantel (see Note 1)	**–**	1,869
Balance at end of year	**₱10,441**	₱10,358

Provision for estimated liabilities from guarantees and commitments represents the Parent Company's guarantees and commitments in Bayantel. A portion of the guarantees and commitments in Bayantel that have not been provided for amounted to approximately ₱1,669 million as of December 31, 2004 and 2003. Such amount represents management's estimate of the Parent Company's share in the remaining potential net worth of Bayantel. As discussed in Note 1, pursuant to the guarantee, the Parent Company and Bayantel entered into an Indemnity Agreement where Bayantel has agreed to indemnify the Parent Company in the event that the Parent Company is required to pay the guaranteed obligations.

16. **Long-term Debt**

	Historical		**Pro Forma**	
	2004	2003	**2004**	2003
		(In Millions)		
Parent Company:				
7.875% Notes	**₱8,442**	₱8,338	**₱8,442**	₱8,338
LTCPs	**2,000**	2,000	**2,000**	2,000
4.2% Perpetual Convertible Bonds	**12**	12	**12**	12
ABS-CBN:				
Term loan under the senior credit agreement	–	–	**5,969**	–
Exchangeable notes	–	–	**–**	3,210
Syndicated loans payable to a local bank	–	–	**–**	1,860
Payable to a local bank	**–**	–	**–**	500
	10,454	10,350	**16,423**	15,920
Less current portion of long-term debt	**10,442**	10,338	**11,249**	12,454
	₱12	₱12	**₱5,174**	₱3,466

Parent Company

a. 7.875% Notes

On June 17, 1997, the Parent Company issued 7.875% Notes of US$150 million listed in the Luxembourg Stock Exchange. The 7.875% Notes which matured on December 19, 2002, bear interest at 7.875% per annum, net of withholding taxes, payable in arrears in equal semi-annual installments in June and December of each year. At the option of the Noteholders, the Parent Company will redeem all (but not less than all) of such holder's 7.875% Notes at any time upon the occurrence of the Restructuring Event as defined in the Indenture, which excludes the event described in Note 2 to the consolidated financial statements, at 100% of the principal amount thereof, together with accrued interest to the date of redemption and any additional amounts in accordance with the terms of the 7.875% Notes.

At the option of the Parent Company, the 7.875% Notes may be redeemed at 100% of the principal amount thereof, together with accrued interest to the date of redemption and any additional amounts in accordance with the terms of the 7.875% Notes, in whole or in any part, at anytime by giving 30 to 45 days notice to Noteholders on certain conditions as defined under the terms of the 7.875% Notes.

The 7.875% Notes constitute direct, subordinated and unsecured obligations of the Parent Company and shall at all times rank pari passu and without any preference or priority among themselves. The payment obligations of the Parent Company under the 7.875% Notes shall, save for such exceptions as may be provided by mandatory provision of law and subject to the terms of the 7.875% Notes, at all times rank at least equally with all its other present and future unsecured obligations.

The 7.875% Notes provide certain restrictions with respect to, among others, incurrence of debt and merger or consolidation, except in certain circumstances.

In 2002, the Company defaulted on its principal and interest payments on the above obligations. The terms of the 7.875% Notes provide that the principal amount, together with accrued interest thereon and all other amounts due and payable, become immediately due and payable.

b. LTCPs

On August 9, 1996, the Securities and Exchange Commission (SEC) approved the issuance of ₱3 billion worth of LTCPs to finance the Parent Company's investments in real property development, telecommunications, infrastructure projects and power-related projects of its subsidiaries and associates.

The LTCPs were offered and issued in two series, "A-1" for ₱1,000 million and "A-2" for ₱2,000 million. Series A-1 was fully paid in 2001. Series A-2 shall be repaid in one lump sum on October 1, 2003 with interest at 1-1/8% above the 91-day TB rate, also payable quarterly in arrears.

The LTCPs provide certain restrictions and requirements with respect to, among others, incurrence of mortgage, pledge, lien or other encumbrance over the whole or any part of the Parent Company's assets or revenues, merger or consolidation, sales, lease, transfer or otherwise disposal of all or substantially all of its assets, dividend distribution and maintenance of certain financial ratios.

The Parent Company also defaulted on its interest payments on the above obligations in 2002 and on its principal in 2003. The terms of the LTCP loan provide for the payment of penalties should there be an event of default on interest and/or principal computed at 24% per annum from the date of default.

c. 4.2% Perpetual Convertible Bonds (Bonds)

The 4.2% Bonds, listed in the Luxembourg Stock Exchange and issued in registered form in denomination of US$1.49 each, bear interest from November 26, 1994 at 4.2% per annum, net of withholding taxes, determined at a fixed exchange rate and payable annually in arrears in November 30 of each year commencing on November 30, 1995. The Bonds may be converted on or after November 26, 1995 into fully paid common shares of the Parent Company by reference to the Philippine peso equivalent of the US dollar denominated principal amount of the Bonds, determined at a fixed exchange rate, and at an initial conversion price of ₱4.202396 per share, subject to adjustment in certain events. The Bonds are redeemable at the option of the Parent Company, in whole or in part, at any time after November 26, 1998 at a price equal to the principal amount of the Bonds or market price of the shares issuable upon conversion, whichever is higher, subject to certain conditions.

As of December 31, 2004 and 2003, 29,449 units have been converted into 324,337,262 common shares. Certain number of shares equivalent to 3,421,410 shares, are reserved to cover any conversion of the outstanding Bonds into common shares and stock dividends declared during the year.

The Bonds constitute direct, unconditional, unsubordinated and subject to certain exceptions, unsecured obligations of the Parent Company and shall at all times rank pari passu and without any preference or priority among themselves and at least equally with all other present and future unsecured obligations of the Parent Company, except for such exceptions as may be provided by applicable legislation. As of December 31, 2004 and 2003, ₱12 million of the Bonds are outstanding.

As discussed in Note 1, the Parent Company is currently in negotiation with the creditors to address all its obligations. Total penalties recognized by the Parent Company amounted to ₱492 million in 2004 and ₱138 million in 2003.

ABS-CBN

Term Loan under the Senior Credit Agreement (SCA)

On June 18, 2004, ABS-CBN entered into a SCA with several foreign and local banks (Original Lenders) for a US$120 million dual currency syndicated term loan facility for the purpose of refinancing existing indebtedness incurred for the construction of the Eugenio Lopez, Jr. Communications Center, additional investment in the cable TV business and funding capital expenditures and working capital requirements. The SCA is classified in three (3) groups namely: Tranche A, a floating rate facility (3.5% + LIBOR) amounting to US$62 million; Tranche B, a floating rate facility (3.5% + MART1 T-bill) amounting to ₱2,688 million; and, Tranche C, a fixed rate facility (3.5% + FXTN) amounting to ₱560 million. Both Tranche A and Tranche B have a term of five years with 17 quarterly unequal payments and Tranche C has a term of four years with four annual unequal installments. ABS-CBN's obligation under the SCA is secured and covered by a Mortgage Trust Indenture (MTI) which consists of substantially all of ABS-CBN's real property and moveable assets used in connection with its business and insurance proceeds related thereto. Further, ABS-CBN's obligation under the SCA is jointly and severally guaranteed by its principal subsidiaries.

The SCA contains provision regarding the maintenance of certain financial ratios and limiting, among others, the incurrence of additional debt, the payment of dividends, making investments, the issuing or selling ABS-CBN’s capital stock or some of its subsidiaries, the selling or exchange of assets, creation of liens and effecting mergers. As of December 31, 2004, ABS-CBN is in compliance with the provisions of the SCA.

To hedge against foreign exchange and interest rate exposure on the facility drawdowns, ABS-CBN entered into an International Swap Dealers Association, Inc. Master Agreement on June 18 and 23, 2004 with ING Bank N. V. (Manila Branch) and ABN AMRO Bank, Inc., respectively. By virtue of these master agreements, ABS-CBN entered into long-term principal-only currency swaps that hedge 100% of the Tranche A Principal against foreign exchange risk. The long-term principal-only currency swaps have an aggregate notional amount of US$53 million as of December 31, 2004 and a weighted average swap rate of ₱56.31 to US$1. Under these agreements, ABS-CBN effectively swaps the principal amount of certain US dollar-denominated loans under the SCA into Philippine peso-denominated loans with payments up to June 2007 and June 2009. ABS-CBN is also obligated to pay swap costs based on a fixed rate of 8.0% on 43.5% of the aggregate notional amount and 3-month PHIREF minus 2.9% on 56.5% of the aggregate notional amount. To manage the interest rate exposure from the floating rate loans, ABS-CBN also entered into USD interest rate swaps and PHP interest rate swaps which effectively swap certain floating rate loans into fixed-rate loans. These USD interest rate swaps and PHP interest rate swaps have an aggregate notional amount of US$39 million and ₱716 million, respectively, with payments up to September 2006 and March 2008.

The estimated unrealized net mark-to-market loss on these long-term principal-only currency swaps and interest rate swaps amounted to about ₱161 million as of December 31, 2004, as confirmed by the counterparty. This net loss is not included in the determination of net income for the year but is presented only for disclosure purposes.

As of December 31, 2004, ABS-CBN has been able to draw from the SCA a total amount of ₱5,969 million and it expects to draw the remaining amount of US$8 million and ₱278 million from the Tranche A and B facilities, respectively, during the first quarter of 2005. Including the hedge cost, effective interest rate is 12.403% for Tranche A, 12.710% for Tranche B and 15.122% for Tranche C.

As indicated in the SCA, all existing loans of ABS-CBN outside the SCA were settled via proceeds of the term loan facility.

Repayments of the term loan under the SCA are scheduled as follows:

	(In Millions)
2005	₱807
2006	1,226
2007	1,519
2008	1,516
2009	901
	₱5,969

In 2003, long-term loans of ABS-CBN consists of:

a) Exchangeable Notes

On September 2, 2002, ABS-CBN entered into an Exchangeable Notes Facility Agreement (ENFA) with a local bank and certain financial institutions (Facility Lenders) for a term loan facility with an aggregate amount of ₱3,438 million for the purpose of raising permanent working capital and/or refinancing of its short-term loans used or to be used to upgrade its existing plant and network facilities. The term loan facility is classified as Floating Rate Notes and Fixed Rate Notes both with a term of 5 years and which are exchangeable into bonds subject to the bond issuance requirements as provided for in the ENFA. The ENFA is covered by a Mortgage Trust Indenture (MTI) entered into by ABS-CBN and facility lenders over ABS-CBN's property and equipment with a net book value of ₱9,219 million and investment in club shares with a carrying value of ₱17 million as of December 31, 2003.

On September 16, 2002, short-term loans amounting to ₱3,438 million were converted to ₱2,838 million floating rate notes and ₱599 million fixed rate notes with an interest rate of 8.0808% and 13.1313%, respectively. Interest payments are due every quarter starting December 16, 2002 while principal payments will be due every quarter starting September 16, 2003 until September 16, 2007.

b) Syndicated Loans

Syndicated loans payable to local banks consist of long-term loans under JEXIM 4 program of a local development bank amounting to ₱2,000 million. The loan was used to finance the construction of the multi-storey building and acquisition of equipment. The loan is payable in 15 unequal quarterly payments commencing in May 2002 with interest payable quarterly in arrears at 10.93% per annum.

c) Loan Payable to a Local Bank

ABS-CBN has a Loan Agreement with a local bank for US$37.9 million payable in two equal installments, without need of notice or demand, on March 19, 2002 and 2004. Interest is payable quarterly at three-fourths percent (3/4%) above 3-month LIBOR.

ABS-CBN has a forward foreign exchange agreement (forward contract) with the same bank which is co-terminus with the term of the loan. Under the terms of the forward contract, ABS-CBN shall pay the local bank, on each due date of the loan, the equivalent Philippine peso amount of the dollar loan based on its original spot exchange rate of ₱26.38. The Philippine peso amount of the loan shown in ABS-CBN's balance sheets is based on its original spot exchange rate of ₱26.38.

17. Other Noncurrent Liabilities

	Historical		Pro Forma	
	2004	2003	**2004**	2003 (As restated - see Note 3)
	(In Millions)			
Deferred credits (see Note 11)	**₱2,423**	₱1,240	**₱2,422**	₱1,240
Customers' guaranty, deposits and others	**212**	184	**516**	263
Due to related parties (see Note 18)	**57**	81	**216**	156
Deferred tax liabilities - net (see Note 23)	**–**	–	**156**	165
	₱2,692	₱1,505	**₱3,310**	₱1,824

18. Related Party Transactions

In addition to the related party transactions discussed in Notes 8 and 26, transactions with subsidiaries, associates and other related parties follow:

§ Deposits for options to purchase shares of stock of Bayantel and Sky Vision at a pre-agreed price from Lopez (see Note 11); and

§ Interest and non-interest bearing cash advances to and from related parties for working capital and investment requirements without fixed payment terms.

The outstanding gross balances resulting from the above transactions as of December 31, 2004 and 2003 are carried in the following accounts in the historical consolidated balance sheets:

	2004	2003
	(In Millions)	
Advances to associates (see Note 8)	**₱3,214**	₱3,100
Deposits (see Note 11)	**4,833**	4,833
Due from related parties	**6**	6
Due to related parties (see Note 17)	**(57)**	(81)

The following are the significant transactions entered into with related parties (excluding the Parent Company):

Related party		Notes Payable (see Note 13)	Management Consultancy Services	Technical Assistance and Services	Guarantee Fees	Service Fee	Operating Expenses	Construction Services	Payable to Related Parties (see Note 1)
					(In Thousands)				
Ondeo Services Philippines, Inc. (OSPI)	2004	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱334,999
	2003	–	39,674	–	–	–	254	–	334,999
Suez (see Note 13)	2004	3,058,378	–	–	34,193	–	–	–	3,909,997
	2003	3,017,397	–	4,496	69,166	113,986	14,477	–	3,814,586
Safege Consultancy and Montgomery Watson (see Note 10)	2003	–	6,504	–	–	–	–	–	–
Meralco Industrial Engineering Services Corp. (MIESCOR) (see Note 10)	2004	–	–	–	–	–	–	27,843	27,778
	2003	–	–	–	–	–	–	29,751	22,006
First Philippine Balfour Beatty, Inc. (FPBBI) (see Note 10)	2004	–	–	–	–	–	–	1,531	13,788
	2003	–	–	–	–	–	–	64,540	24,415

OSPI
OSPI, formerly Lyonnaise Des Eaux Philippines, Inc., is a subsidiary of Suez, a stockholder of Maynilad Water.

MIESCOR and FPBBI
These have common management with Maynilad Water.

A description of fees charges by related parties follow:

Management Consultancy Services
This represents fee charged by OSPI for consultancy services provided by expatriates to Maynilad Water.

Technical Assistance and Services
This represents the fixed fee charged by Suez to Maynilad Water for technical services.

Guarantee Fees
This represents the fee charged by Suez to Maynilad Water for acting as guarantors on dollar-denominated and peso-denominated loans.

Service Fee
This represents the fee charged by Suez to Maynilad Water based on a certain percentage of revenues.

Revenues from Water Services
In the ordinary course of business, Maynilad Water provides water to related parties within its area. The rates for the related parties are comparable with those for unrelated parties.

In the pro forma consolidated financial statements, transactions of ABS-CBN with associates and related parties follow:

	2004	2003	2002
		(In Millions)	
Termination cost charges of Bayantel to ABS-CBN Global	**₱232.1**	₱99.8	₱147.1
License fees charged by Creative Programs, Inc. (CPI) to Central CATV (Central), PCC and Home Cable [(a)]	**137.4**	135.8	136.3
Blocktime fees paid by Studio 23 to Amcara [(b)]	**68.0**	82.7	105.1
Expenses and charges paid for by ABS-CBN which are reimbursed by the concerned related parties	**46.4**	12.4	92.3
Airtime revenue from Star Cinema, Bayantel and Meralco	**30.2**	14.0	62.6
Rental charges for the use of office space	**133.0**	9.2	7.3
Management and other service fee	**41.2**	9.7	14.5

a. License Fees Charged by CPI to Central

ABS-CBN and CPI acquired from Central the production and distribution business and the related program rights and property and equipment of three cable channels, namely, Lifestyle Channel, Pinoy Blockbuster Channel and Video-ok Channel for ₱671.1 million.

CPI entered into a cable lease agreement (Agreement) with Central for the airing of these channels to the franchise areas of Central and its cable affiliates. The Agreement with Central is for a period of five years effective January 1, 2001, renewable upon mutual agreement. Under the terms of the Agreement, CPI receives license fees from Central and its cable affiliates computed based on agreed rates and on the number of subscribers of Central and its cable affiliates. As the owner of the said cable channels, CPI will develop and produce its own shows and acquires program rights from various foreign and local suppliers.

b. Blocktime Fees Paid by Studio 23 to Amcara

Studio 23, Inc. owns the program rights being aired in UHF Channel 23 of Amcara. On July 1, 2000, it entered into a blocktime agreement with Amcara for its provincial operations.

19. Cost of Sales and Services

	Historical			**Pro Forma**	
	2004	2003	2002	**2004**	2003
			(In Millions)		
Amortization of deferred FCDA (see Note 11)	**₱1,061**	₱2,085	₱2,567	**₱1,061**	₱2,085
Amortization of concession assets (see Note 11)	**656**	489	–	**656**	489
Personnel expenses (see Note 24)	**573**	531	639	**783**	683
Facilities related expenses	**200**	234	314	**1,130**	546
Inventory cost	**150**	74	107	**695**	557
Other expenses	**586**	289	261	**1,110**	1,159
	₱3,226	₱3,702	₱3,888	**₱5,435**	₱5,519

20. **Agency Commission, Marketing Expenses and Co-producers' Share**

	Pro Forma	
	2004	2003
	(In Millions)	
Agency Commission	**₱1,609**	₱1,543
Marketing expenses and co-producers' share	**437**	438
	₱2,046	₱1,981

Industry rules allow ABS-CBN to sell up to 18 minutes of commercial spots per hour of television programming. These spots are sold mainly through advertising agencies which act as the buying agents of advertisers, and, to a lesser extent, directly to advertisers. Substantially, all gross airtime revenue, including airtime sold directly to advertisers, is subject to a standard of 15% agency commission.

Marketing expenses are commissions paid to ABS-CBN's account executives who promote the Company's entertainment programs and news and current affairs programs to advertising agencies.

ABS-CBN has co-produced shows with independent producers. Under this arrangement, ABS-CBN provides the technical facilities and airtime and handles the marketing of the show. The co-producers shoulder all other costs of production. The revenue earned on these shows is shared between ABS-CBN and the co-producers.

21. **Production Costs**

	Pro Forma	
	2004	2003
	(In Millions)	
Personnel expenses and talent fees	**₱2,524**	₱2,094
Facilities related expenses	**716**	652
Other program expenses	**921**	754
	₱4,161	₱3,500

22. **General and Administrative Expenses**

	Historical			Pro Forma	
	2004	2003	2002	**2004**	2003 (As restated - see Note 3)
		(In Millions)		*(In Millions)*	
Personnel expenses (see Note 24)	**₱600**	₱647	₱645	**₱2,245**	₱1,979
Contracted services	**244**	786	443	**582**	1,128
Facilities related expenses	**134**	234	127	**542**	604
Provision for doubtful accounts	**70**	–	408	**234**	179
Other expenses	**270**	423	500	**1,164**	1,096
	₱1,318	₱2,090	₱2,123	**₱4,767**	₱4,986

23. **Income Tax**

The significant components of the Company's temporary differences in the historical consolidated financial statements follow:

	Historical	
	2004	2003 (As restated - see Note 3)
	(In Millions)	
Deductible temporary differences on:		
Estimated liabilities from guarantees and commitments	**₱10,441**	₱10,358
Unrealized foreign exchange losses	**5,175**	4,811
Allowance for decline in value of investments and advances and other noncurrent assets	**4,910**	4,653
NOLCO	**3,421**	2,821
Allowance for doubtful accounts	**769**	699
Deferred credits	**589**	589
Accrued retirement and unamortized past service cost	**394**	312
Carryforward benefit of MCIT	**5**	9
	₱25,704	₱24,252

As of December 31, 2004 and 2003, the Company did not recognize any deferred tax assets on these temporary differences because management believes that the Company may not be able to generate sufficient taxable profit that will be available to allow all or part of the deferred income tax asset to be utilized.

In the historical consolidated financial statements, the current provision for income tax represents the MCIT. In 2004, MCIT and NOLCO amounting to ₱7 million and ₱841 million, respectively, have expired. The Parent Company's MCIT and NOLCO totaling ₱5 million and ₱3,421 million, respectively, as of December 31, 2004, can be carried forward and claimed as deduction against the regular income tax due and regular taxable income, respectively as follows:

Year Paid/Incurred	Expiry Date	MCIT	NOLCO
		(In Millions)	
2002	December 31, 2005	₱–	₱792
2003	December 31, 2006	2	1,188
2004	December 31, 2007	3	1,441
		₱5	₱3,421

In the pro forma consolidated financial statements, the significant components of deferred tax assets and liabilities of ABS-CBN are as follows:

	2004	2003 (As restated - see Note 3)
	(In Millions)	
Deferred tax liabilities - net:		
Capitalized interest, duties and taxes (net of accumulated depreciation)	**(₱336)**	(₱355)
Accrued retirement expense and others	**78**	62
Allowance for doubtful accounts	**60**	36
Project development costs written off	**45**	68
Unrealized foreign exchange loss	**1**	14
Restatement of leases	**(4)**	10
	(₱156)	(₱165)
Deferred tax assets - net:		
Allowance for doubtful accounts	**₱18**	₱7
Accrued retirement expense	**6**	–
NOLCO	**5**	–
MCIT	**4**	–
Unrealized foreign exchange loss	**–**	–
Allowance for inventory obsolescence and others	**4**	3
	₱37	₱10

The details of the unrecognized deductible temporary differences, NOLCO, and MCIT of the subsidiaries of ABS-CBN are as follows:

	2004	2003
NOLCO	**₱286**	₱665
Allowance for doubtful accounts	**232**	101
MCIT	**2**	8
Accrued retirement expense and others	**3**	16
	₱523	₱790

ABS-CBN believes that it is not probable that taxable income will be available against which temporary differences, NOLCO and MCIT will be utilized.

MCIT of the subsidiaries of ABS-CBN amounting to ₱6 million can be claimed as tax credit against future regular corporate income tax as follows:

Year Incurred	Expiry Date	Amount
2002	December 31, 2005	₱2
2003	December 31, 2006	3
2004	December 31, 2007	1
		₱6

NOLCO of the subsidiaries amounting to ₱302 million can be claimed as deductions from regular corporate income tax as follows:

Year Incurred	Expiry Date	Amount
2002	December 31, 2005	₱81
2003	December 31, 2006	161
2004	December 31, 2007	60
		₱302

The reconciliation of the provision for income tax computed at the statutory income tax rates to the provision for income tax shown in the statements of operations follows:

	Historical			**Pro Forma**	
	2004	2003	2002	**2004**	2003
			(In Millions)		
Applicable statutory income tax rate	**(32%)**	(32%)	(32%)	**(32%)**	(32%)
Income tax effect of the following:					
Accretion of earnings (losses) and interest in Notes	**4**	2	(3)	**–**	–
Equity in net earnings of subsidiaries and associates	**4**	24	8	**6**	8
Gain on sale of investments	**–**	2	–	**–**	4
Income subject to income tax holiday	**–**	–	17	**–**	–
Change in value of unrecognized deferred tax assets	**24**	4	10	**9**	(25)
	–	–	–	**(17%)**	(45%)

24. **Pension Plan**

The Parent Company, ABS-CBN and Maynilad Water have funded, noncontributory and actuarially computed defined benefit pension plans covering substantially all of their employees. The benefits are based on years of service and compensation during the last year of employment. Total pension expense for 2004, 2003 and 2002 amounted to ₱82.5 million, ₱105.7 million and ₱123.5 million, respectively, in the historical consolidated financial statements and ₱169.6 million, ₱193.3 million and ₱179.2 million in 2004, 2003 and 2002, respectively, in the pro forma consolidated financial statements. Actuarial valuations are made at least every three years.

As of October 1, 2002, the date of the latest actuarial valuation report of the Parent Company, the present value of retirement obligations amounted to ₱3.4 million. The fair value of the plan assets amounted to ₱14.4 million. The principal actuarial assumptions used to determine pension benefits were a return on plan assets of 10%, a discount rate of 7.93% and salary increases of 10%.

As of August 1, 2002, the date of the latest actuarial valuation of Maynilad Water, the actuarial present value of pension benefits amounted to ₱183.9 million. The principal actuarial assumptions used to determine pension benefits were an investment yield of 7% and salary increases of 8% per annum.

As of December 31, 2004, the latest actuarial valuation of ABS-CBN, the actuarial present value of pension benefits amounted to ₱422.1 million. The fair value of the plan assets amounted to ₱126.1 million. The unfunded present value of pension benefits amounted to ₱226.0 million. The principal actuarial assumptions used to determine pension benefits were a discount rate of 12%, salary increases of 6% and a return on plan assets of 10%.

The Company's annual contribution to the pension plan consists of a payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability.

25. Loss Per Share

Net Loss

	2004	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)
		(In Millions)	
(a) Loss from ordinary activities	**(₱1,364)**	(₱1,905)	(₱1,947)
Interest on convertible bonds and amortization of bond issue cost	**1**	1	1
(b) Loss from ordinary activities - diluted	**(₱1,363)**	(₱1,904)	(₱1,946)

	2004	2003	2002
		(In Millions)	
(c) Net loss	**(₱1,364)**	(₱1,905)	(₱4,044)
Interest on convertible bonds and amortization of bond issue cost	**1**	1	1
(d) Net loss - diluted	**(₱1,363)**	(₱1,904)	(₱4,043)

Shares

	2004	2003	2002
(e) Weighted average number of common shares - basic	**4,581,544,408**	4,581,544,408	4,581,544,408
Conversion of bonds (see Note 16)	**3,421,410**	3,421,410	3,421,410
(f) Adjusted weighted average common shares - diluted	**4,584,965,818**	4,584,965,818	4,584,965,818

Per Share Amounts

	2004	2003	2002
Basic:			
On loss from ordinary activities (a/e)	**₱0.2977**	₱0.4158	₱0.4249
On net loss (c/e)	**0.2977**	0.4158	0.8827

The effect of the conversion of the Perpetual Convertible Bonds is anti-dilutive for the years ended December 31, 2004, 2003 and 2002.

26. **Commitments**

Parent Company

a. The Parent Company acts as a surety to guarantee the payment of principal and interest of the: (i) convertible preferred shares issued by Bayantel with a redemption value of US$167 million based on original terms before any prepayments made based on BSMP (US$158.2 million as of December 31, 2004 and US$162.3 million as of December 31, 2003 based on BSMP); (ii) 60% of bank loans of Maynilad Water equivalent to US$72 million in 2004 and 2003; (iii) 60% of the standby letter of credit of Maynilad Water equivalent to US$72 million in 2004 and 2003; and (iv) FPIDC and MNTC loans and obligations to contractors of about US$25 million in 2002. As discussed in Note 1(b), the guarantee with respect to FPIDC and MNTC obligations has been removed in 2003. As also discussed in Note 1(b), upon approval of all the Maynilad Water's creditors on the restructured terms of its outstanding liabilities, the Parent Company's guarantee in Maynilad Water will be resolved.

b. The Parent Company and Lopez have entered into a Shareholders' Agreement (SA) with certain shareholders (option holders) of Bayantel where the shareholders have the option to require the Company and Lopez to purchase shares of Bayantel (option shares) from them under certain conditions. The options can be exercised upon the occurrence of certain events specified in the SA or in 2002, whichever comes first. The purchase price of the option share shall be the greater of the aggregate cost price in US dollars of the relevant option shares paid by the shareholders thereof amounting to an initial investment of approximately US$20 million plus interest at the US Prime Rate compounded annually from the date of the relevant purchase to the date of the exercise of the option or the fair market value of the option share.

   The Parent Company has provided the following amounts for certain Bayantel options due on October 24, 2002 before payments made in December 2, 2002:

   1) Amount owed to Chase Manhattan Bank (Chase) - $6.46 million (US$6.346 million as of commencement date of BSMP); and

   2) Amount owed to Asian Infrastructure Fund (AIF) - $43.93 million (US$43.03 million as of commencement date of BSMP).

   Both Chase and AIF have indicated the value of the option shares to be higher.

c. The Parent Company entered into a non-competition and non-solicitation agreement under the Stock Purchase Agreement for the sale of its interest in C-Cubed. Under the Stock Purchase Agreement, the Parent Company and its directly and indirectly-owned subsidiaries shall not engage in any call center service for a five-year period.

FPHC Group

d. Power Purchase Agreements (PPAs)

   First Gas Power Corporation (FGPC) and First Gas Power (FGP), subsidiaries of FPHC, have separate PPAs with MERALCO, the sole customer of both subsidiaries. Under the PPAs, MERALCO will purchase in each contract year from the start of commercial operations, a minimum number of kilowatt-hours of the net electrical output of FGPC and FGP for a period of 25 years. Billings to MERALCO under the PPAs are substantially in US dollars and a small portion billed in Philippine pesos.

On January 7, 2004, MERALCO, FGPC and FGP signed the Amendment to their respective PPAs. The negotiations resulted in a package of concessions including FGPC and FGP shouldering local community taxes at current tax rate, while conditional concessions include increasing discounts on excess generation, paying higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in non-charging of MERALCO of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The effectivity of the amended terms of the respective PPAs of FGPC and FGP is subject to certain conditions, including ERC approval.

Bauang Private Power Corporation (BPPC), an associate of FPHC, has an existing Project Agreement with NPC. Under the Project Agreement, NPC supplies all fuel inventory to generate electricity, with all electricity generated purchased by NPC. BPPC is entitled to payment of fixed capacity and operation and maintenance fees based on the nominated capacity as well as energy fees from the delivery of electric power to NPC. The Project Agreement will be for a period of 15 years up to 2010. Upon expiration of the 15-year period, BPPC shall transfer to NPC all of its rights, titles and interests in the power plant complex, free of liens created by the BPPC and without any compensation.

e. North Luzon Tollway Project (the NLE Tollway Project) Agreements

1) Joint Venture Agreement (JVA)
FPIDC has a JVA with the Philippine National Construction Corporation (PNCC) for the establishment of a Joint Venture Company (JVC) with the sole purpose of implementing the Northern Luzon Expressway (NLE) Tollway Project. MNTC was established to be the JVC. The JVA is for a period of 30 years from the construction and delivery of the last segment of the NLE Tollway Project.

PNCC is the franchise holder for the construction, operation and maintenance of toll facilities in the North and South Luzon Tollways and the Metro Manila Expressway by virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. In accordance with JVA, FPIDC assigned to MNTC all of its rights, interests and privileges to the SBMA-Tipo Road which connects Tipo in Hermosa, Bataan to Subic and will form part of the NLE Tollway Project. For its part, PNCC assigned to MNTC its rights, interest and privileges under its franchise to construct, operate and maintain toll facilities in the NLE insofar as the design, funding and rehabilitation of the NLE, and the installation of the appropriate toll collection system therein are concerned. The assignment of PNCC's rights in relation to the NLE to the JVC to be formed by PNCC and FPIDC has the approval of the President of the Philippines as issued on May 16, 1995. The Department of Justice also in its Opinion No. 102, Series of 1995, affirmed the authority of the Toll Regulatory Board (TRB) to grant authority to operate a toll facility and to issue the necessary Toll Operation Certificate in favor of the PNCC and its joint venture partner, as reiterated and affirmed by the Secretary of Justice in his letter to the Secretary of the Department of Public Works and Highways dated November 24, 1995, for the proper and orderly construction, operation and maintenance of the NLE as toll road during the concession period. On

June 15, 1998, the President of the Philippines approved a supplement and revision of the PNCC Toll Operating Agreement executed by and between PNCC and the Philippine Government, through the TRB (collectively the “Grantors”) to allow MNTC to participate in the implementation of the NLE Tollway Project.

2) Cooperation Agreement
FPIDC also has a Cooperation Agreement with Egis Projects S.A. (Egis) defining the terms of their cooperation in relation to the NLE Tollway Project.

3) Supplemental Toll Operation Agreement (STOA)
MNTC, under a STOA, was granted the concession by the Grantors, to construct, expand, operate and modernize the existing NLE.

4) Provisional Operating and Maintenance Agreement (POMA)
On April 5, 1997, a POMA was signed by the Subic Base Management Authority (SBMA) to initiate the collection process of Segment 7. On May 24, 2002, the TRB issued a resolution authorizing a set of toll rates starting February 1, 2003.

5) Construction Contract
MNTC has awarded a Construction Contract (Contract) to Leighton Contractors (Asia) Limited (LCAL) for the construction of Segments 1, 2 and 3 of Phase I of the NLE Tollway Project. The Contract is a firm fixed price contract and is not subject to indexation or exchange rate fluctuations except when expressly stated in the contract or otherwise agreed with LCAL the Philippine Peso component of the contract price amounting to ₱5.8 billion and the US dollar component amounting to US$37.0 million. In addition to the fixed contract price, LCAL shall be entitled to an early completion bonus to be computed based on the terms of the contract.

6) Significant contracts entered into by MNTC, a subsidiary of FPIDC, for the financing and construction of its Project are as follows:

   § In 2003, MNTC had availments from a US$261 million project financing facility provided by a consortium of foreign and local banks. The outstanding availments from the financing facility amounted to ₱11,700 million (US$207.9 million) and ₱6,774 million (US$122 million) as of December 31, 2004 and 2003, respectively.

   The financing facility consists of direct and syndicated facilities. Interest rates on the direct facilities consisting of fixed and floating rates, range from 4.46% to 8.03% in 2003. Interest rates on the syndicated facilities also consisting of fixed and floating rates, range from 2.71% to 4.31% plus risk premium in 2003. Risk premium paid annually amounted to 1.35% of current debt plus 2.70% of the standby debt while risk premium paid up-front is equivalent to about 10% of the facility amount.

   The loan facility is payable within ten years in 20 semi-annual installments commencing on the 15th day of the month succeeding any of the following dates, whichever comes first: (a) six months after the Last Toll Operation Permit Date; (b) 36 months after the financial close, as extended without duplication by the site extension period and the force majeure extension period; or (c) 42 months after the financial close. Based on the foregoing, MNTC made the first installment on December 15, 2004.

The following repayment schedule ("Minimum Principal Payment") shall be based on the outstanding principal amount of the relevant facility as at the last day of the period:

Installment	Percentage
First to third	2%
Fourth and fifth	3%
Sixth	4%
Seventh to twentieth	6%

During the first six installments, a mandatory prepayment, equivalent to the difference of 5% of the outstanding principal amount as of the availability period and the Minimum Principal Payment, is required under the Common Terms Agreement (CTA) if MNTC has excess cash.

The CTA contains covenants concerning the restrictions with respect to among others, waiver, modification, amendment or assignment of the key project agreements, hedge agreements, restricted payments, and the maximum debt-to-base equity ratio and the level of debt-service-coverage ratio. As of December 31, 2004 and 2003, MNTC is in compliance with its required debt-to-base equity ratio.

MNTC also entered into the following agreements in connection with the financing facility:

- Trust and Retention Agreement (TRA) with the secured lenders' designated trustees and the inter-creditor agent. The TRA provides for the establishment and regulation of the security accounts and the security account collateral where the inflows and outflows of loans obtained from the secured lenders may be monitored.

- Mortgage, Assignment and Pledge Agreement (known as the Master Security Agreement) which grants the trustees, on behalf of the secured lenders, the security interest in MNTC's various assets. Real estate mortgage and chattel mortgage shall be constituted in favor of the co-security trustee for the benefit of the secured lenders, as required under the financing agreements.

- Shareholder Contribution Agreement with MNTC's Principal Shareholders, the Company, Lopez, Transroute International S.A., the security trustee, the co-security trustee and inter-creditor agent which provides, among others, for the Principal Shareholders to make additional equity contributions to MNTC in order to meet the required debt-to-base equity ratio prior to the proposed drawdown date.

- Sponsor Support Agreement (SSA) among MNTC, FPIDC, Egis, the security trustee, the co-security trustee and inter-creditor agent, which provides, among others, for FPIDC and Egis to provide certain support to MNTC up to a maximum of US$25.0 million. The SSA provides for certain restrictions with respect to, among others, waiver, modification, amendment or assignment of the key project agreements, merge or amalgamate or be consolidated with any other person or entity and enter into any arrangement or commitment on terms less favorable to MNTC than arm's length open market terms unless otherwise approved by the lenders. The Parent Company has guaranteed the obligations of FPIDC as MNTC sponsor under the SSA.

The CTA and the above agreements were amended on January 30, 2003 to reflect certain changes in the deal, mainly (a) the replacement of the Company with FPHC, and the removal of Lopez in the Financing Agreements, (b) the entry of Leighton Asia Limited as a new shareholder and the revised shareholders structure and (c) credit enhancement of the FPHC guarantee under the SSA through the provision of FPIDC of a sponsor support letter of credit equivalent to US$21.1 million.

In accordance with Clause 2.2c of the Amended Shareholder Contribution Agreement, FPIDC and Egis contributed fund to MNTC in 2003, amouting to US$5.9 million and US$4.6 million, respectively, and was deposited to an Advance Equity sub-account.

In 2004, FPIDC, Egis, and LAL Contributed additional funds totaling ₱1.09 billion which were converted to deposits for future stock subscription and ₱1.627 billion were converted into equity by issuance of 3,857,143 of MNTC shares. The conversion was approved by the BOD of MNTC on November 23, 2004.

In accordance with the Shareholder's Loan Agreement, MNTC calls for shareholder contributions that were partly funded through the Advance Equity sub-account. These shareholder contributions are temporarily booked as shareholder loans until the pro-rata Share Adjustment Date wherein such shareholder loans will be converted into equity.

§ On July 6, 2001, an Operation and Maintenance Agreement (O&M agreement) was entered into by and between MNTC, as employer and Tollways Maintenance Corporation (TMC), as the operator. The O&M agreement contains the terms and conditions for the operation and maintenance by the TMC of Phase 1 of the NLE Tollway Project and sets forth the scope of its services. The TMC will be assisted by the Transroute Philippines, Inc. as a service provider in accordance with the Technical Assistance Agreement. Under the O&M agreement, MNTC shall pay TMC the following: (i) compensation for the performance of the pre-start-up services amounting ₱177 million (₱30 million during the first 12 months and ₱147 million during the second 12 months subject to escalation) to be paid in monthly installments over the two years preceding the Anticipated Start-up Date, based on the schedule provided by in the Q&M agreement; and (ii) a minimum fixed annual amount currently at ₱637 million for the NLE and ₱41 million for Segment 7, plus a variable component, which will take effect upon start of commercial operations of MNTC. The O&M agreement shall be effective for the entire concession period.

<u>Maynilad Water</u>

f. The significant commitments of Maynilad Water under the Concession Agreement follow:

1) Payment of concession fees (see Note 1)

2) Posting of performance bond (see Note 1)

On July 14, 2000, Maynilad Water entered into a three-year Facility Agreement with foreign banks for a standby letter of credit (LC) facility of US$120 million, in favor of MWSS as a bond for the full and prompt performance of Maynilad Water's obligations. The standby LC is renewable every year at the discretion of Maynilad Water. The Parent Company guaranteed 60% of the US$120 million standby LC facility. The remaining 40% is guaranteed by Suez, through its own parent company, Suez S.A. The aggregate amount drawable in one or more installments under such performance bond during the Rate Rebasing Period to which it relates is set out below:

Rate Rebasing Period	Aggregate Amount Drawable Under Performance Bonds
	(In Millions)
First (August 1, 1997 - December 31, 2002)	US$120
Second (January 1, 2003 - December 31, 2007)	120
Third (January 1, 2008 - December 31, 2012)	90
Fourth (January 1, 2013 - December 31, 2017)	80
Fifth (January 1, 2018 - May 6, 2022)	60

Within 30 days from the commencement of each renewal date, Maynilad Water shall cause the performance bond to be reinstated to the full amount set forth above applicable for the year.

Upon not less than ten days written notice to Maynilad Water, MWSS may make one or more drawings under the performance bond relating to a Rate Rebasing Period to cover amounts due to MWSS during that period; provided, however, that no such drawings shall be made in respect of any claim that has been submitted to the Appeals Panel for adjudication until the Appeals Panel has handed down its decision on the matter.

In the event that any amount payable to MWSS or the Regulatory Office by Maynilad Water is not paid when due, such amount shall accrue interest at a rate equal to that of a 364-day Philippines Treasury Bill for each day it remains unpaid from and including the due date thereof but excluding the date on which such amount shall be paid (including payment through a drawing under the performance bond) in full.

As fully discussed in Note 1, on November 27, 2003, the Quezon City Regional Trial Court prohibited the MWSS from withdrawing a portion of the US$120 million performance bond of the Company to partly answer for unpaid concession fees. However, on December 4, 2003, Maynilad Water received a Resolution dated December 3, 2003 in which the SC resolved to ***"issue a status quo order"*** and the Rehabilitation Court was directed by the Chief Justice to ***"suspend the effectivity of the order dated November 27, 2003 pending consideration of the merits of the petition"***.

In June 2004, MWSS withdrew its consent to Amendment No. 2 as a result of the SC Decision allowing MWSS to draw in full the US$120 million performance bond. On January 20, 2005, MWSS received the entire proceeds of the US$120 million performance bond.

The resolution of guarantees to Maynilad Water depends on the agreement of all of Maynilad Water's creditors on the restructured terms of its outstanding liabilities (see Note 1).

3) Payment of half of MWSS and Regulatory Office's budgeted expenditures for the subsequent years, provided that the aggregate annual budgeted expenditures do not exceed ₱200 million, subject to Consumer Price Index adjustments.

4) To meet certain specific commitments in respect to the provision of water and sewerage services in the West Service Area, unless modified by the Regulatory Office due to unforeseen circumstances.

5) To operate, maintain, renew and, as appropriate, decommission facilities in a manner consistent with the National Building Standards and best industrial practices so that, at all times, the water and sewerage system in the West Service Area is capable of meeting the service obligations (as such obligations may be revised from time to time by the Regulatory Office following consultation with Maynilad Water).

6) To repair and correct, on a priority basis, any defect in the facilities that could adversely affect public health or welfare, or cause damage to persons or third-party property.

7) To ensure that at all times Maynilad Water has sufficient financial, material and personnel resources available to meet its obligations under the Concession Agreement.

8) Non-incurrence of debt or liability that would mature beyond the term of the Concession Agreement without the prior notice of MWSS.

Failure of Maynilad Water to perform any of its obligations under the Concession Agreement of a kind or to a degree which, in a reasonable opinion of the Regulatory Office, amounts to an effective abandonment of the Concession Agreement and which failure continues for at least 30 days after written notice from the Regulatory Office, may cause the Concession Agreement to be terminated. Failure of Maynilad Water to perform any material obligation under the Concession Agreement for which a financial penalty would be ineffective or inappropriate as determined by the Regulatory Office and which failure continues for at least 180 days after written notice from the Regulatory Office, may likewise cause the Concession Agreement to be terminated. The Concession Agreement also defines MWSS and Maynilad Water's events and procedures of early termination which includes, among others, giving of written notice, determination of the amount payable to the Regulatory Office, and referral of the matter to the Appeals Panel, all within the specified period of time.

The Concession Agreement further provides a general rate setting policy for rates chargeable by Maynilad Water for water and sewerage services which are as follows:

1) For the period through the second rate rebasing date, the maximum rates chargeable by Maynilad Water (subject to interim adjustments) are set out in the Concession Agreement.

2) From and after the second rate rebasing date, the rates for water and sewerage services shall be set at a level that will permit Maynilad Water to recover over the 25-year term of the concession its investment including operating, capital maintenance and investment

expenditures prudently and efficiently incurred, Philippine business taxes and payments corresponding to debt service on the MWSS loans and Maynilad Water's loans incurred to finance such expenditures, and to earn a rate of return on these expenditures for the remaining term of the concession in line with the rates of return being allowed from time to time to operators of long-term infrastructure concession arrangements in other countries having a credit standing similar to that of the Philippines.

The maximum rates chargeable for such water and sewerage services shall be subject to general adjustment at five-year intervals commencing on the second rate rebasing date provided that the Regulatory Office may exercise its discretion to make a general adjustment of such rates on the first Rate Rebasing Date.

In relation to the Concession Agreement, Maynilad Water also entered into the following contracts with Manila Water.

1) Interconnection Agreement that provides for, among others, the cost and volume of water to be transferred between zones;

2) Common Purpose Facilities Arrangement that provides for the operation, maintenance, renewal, and as appropriate, decommissioning of the Common Purpose Facilities, and perform other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of such other functions relating to the Concession (and the Concession of the East Concessionnaire) as Maynilad Water and the East Concessionnaire may choose to delegate to the Joint Venture, subject to the approval of MWSS; and

3) Agreement that provides for the new price of the water transfers and for the application of the certain arrangements relating to the Consumer Price Index adjustments in the price of the water transfers.

   Cost of water from Manila Water amounted to ₱0.62 million and ₱1.83 million for the year ended December 31, 2004 and 2003, respectively.

g. As of December 31, 2004, Maynilad Water has commitments totaling ₱1.14 billion and ₱39.10 million for the project construction and purchase of materials and supplies.

27. **Contingencies**

a. A civil suit for damages alleging violations of the U.S. federal securities law and New York state law was filed on December 19, 2002 by AIG against the Parent Company, Bayantel, and certain of their officers and directors with a US federal trial court in New York City. The complaint alleges that the defendants, including the placement agent in the sale of the convertible preferred shares of Bayantel, failed to disclose to AIG at the time it purchased such shares that certain institutional stockholders of Bayantel had a pre-existing put right to the Parent Company of their common shares in Bayantel. On August 18, 2003, AIG filed a motion to dismiss, with prejudice, the civil suit against the Parent Company, Bayantel and the officers and directors.

AIG also filed a motion for summary judgment in lieu of a complaint with the New York state court against the Parent Company and Bayantel for the payment of the amount of US$44 million under the convertible preferred shares issued by Bayantel and guaranteed by the Parent Company. The Parent Company and Bayantel filed a motion to dismiss which is still pending resolution. On May 26, 2004, the New York State court denied the motion for summary judgment in lieu of complaint and dismissed the matter. The Parent Company is not aware of any further actions made by AIG since then.

b. There are certain claims from Suez and its subsidiaries which are currently under negotiation and reconciliation. These claims amounted to approximately ₱216 million and ₱135 million as of December 31, 2004 and 2003, respectively. No adjustment was made in the accounts pending resolution of the issues.

c. On February 1, 2000, the NTC issued an order reviving the 1992 application of Bayantel for a license to operate a Cellular Mobile Telephone System (CMTS) in NTC Case No. 92-486. On May 3, 2000, the NTC granted Bayantel a PA to construct, install, operate and maintain a nationwide CMTS subject to certain terms and conditions. Upon the petition by a certain CMTS carrier, the CA on September 13, 2000, nullified this PA. Bayantel sought a reconsideration of such decision but this was denied through a resolution. The NTC, through the Solicitor General, and Bayantel filed separate petitions with the SC challenging the CA's decision and resolution. The said petitioning CMTS carrier was required to submit its comment to said petitions. On August 1, 2001, Bayantel filed a motion to consolidate the two cases because both basically dwell on the same issues but were assigned to two separate divisions. On January 15, 2002, the SC ruled in favor of Bayantel and the NTC, reinstating the orders of the NTC. A Motion for Reconsideration filed by the other party, was subsequently denied by the SC and the case has become final.

d. The Parent Company and certain subsidiaries and associates have contingent liabilities with respect to claims, lawsuits and tax assessments. The respective management of subsidiaries and associates, after consultations with outside counsels, believe that the final resolution of these issues will not materially affect their respective financial position and results of operations.

e. As a customer of MERALCO, the Company expects to receive a refund for some of its previous billings. On April 30, 2003, the Third Division of the Supreme Court (SC) denied the Urgent Motion for Consideration filed by rendering the SC decision dated November 15, 2002 final and executory. The decision mandates that Meralco refund its customers ₱0.167 per kilowatt-hour starting with the billing cycles beginning February 1994 until May 2003, or credit the refund in favor of the customers against their future power consumption.

   MERALCO had reached an agreement with the Energy Regulatory Commission (ERC) on the manner and timing of the refund. The refund to the smaller, mostly residential and general service customers (Refund Phases I to III) will first be satisfied and is presently ongoing. Refunds to commercial and industrial customers (Refund Phase IV) are proposed to be paid over a period of approximately five years starting May 2005. Details of Refund Phase IV will require further ERC approval.

   The Company is covered by Refund Phase IV. It will recognize the MERALCO refund when it is virtually certain of collection, both as to amount and timing of receipt.

28. **Assets Held in Trust**

a. Materials and Supplies

Maynilad Water has the right to use any items of inventory owned by MWSS in carrying out its responsibility under the Concession Agreement, subject to the obligation to return the same at the end of the concession period, in kind or in value at its current rate, subject to CPI adjustments.

b. Facilities

Maynilad Water is granted the right to operate, maintain in good working order, repair, decommission and refurbish the movable property required to provide the water and sewerage services under the Concession Agreement. The MWSS shall retain legal title to all movable property in existence at the Commencement Date. However, upon expiration of the useful life of any such movable property as may be determined by Maynilad Water, such movable property shall be returned to MWSS in its then-current condition at no charge to MWSS or Maynilad Water.

The Concession Agreement also provides Maynilad Water and Manila Water East Concessionaire to have equal access to MWSS facilities involved in the provision of water supply and sewerage services in both West and East Service Areas including, but not limited to, the MWSS management information system, billing system, telemetry system, central control room and central records.

The net book value of the facilities transferred to Maynilad Water on Commencement Date based on MWSS' closing audit report amounted to ₱7,300 million with a sound value of ₱13,800 million.

MWSS' corporate headquarters is made available to Maynilad Water and to the East Concessionaire for a one-year period beginning on the Commencement Date, subject to yearly renewal with the consent of the parties concerned. As of December 31, 2004, the lease has been renewed for another year.

29. **Segment Information**

Segment information is prepared on the following bases:

a. Historical

Business segments: The Company's main businesses are investment holdings and water distribution. The Company's remaining activities include customer contact services in 2002 and information service provider.

b. Pro Forma

Segment information is prepared on the following bases:

Business segments: for management purposes, ABS-CBN is recognized into three business activities - broadcasting, cable and satellite, and other businesses. This segmentation is the basis upon which ABS-CBN reports its primary segment information. The broadcasting segment is principally the television and radio broadcasting activities which generates revenue from sale of national and regional advertising time. Cable and satellite service, cable television channels and blocked time on television stations. Other businesses include movie production, consumer products and services.

Geographical segments: although ABS-CBN is organized into three business activities, it operates in three major geographical areas. In the Philippines, its home country, ABS-CBN is involved in broadcasting, cable operations and other businesses. In the United States and other locations (which includes Middle East and Milan), ABS-CBN operates its cable and satellite operations to bring television programming outside the Philippines.

Inter-segment transactions: segment revenue, segment expenses and segment results include transfers among business segments and among geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. Those transfers are eliminated in consolidation.

HISTORICAL
(Amounts in Millions)

	Investment Holdings			Water Distribution			Services			Eliminations			Consolidated		
	2004	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)	**2004**	2003	2002	**2004**	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)	**2004**	2003	2002	**2004**	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)
Revenues	**₱–**	₱–	₱–	**₱3,905**	₱5,025	₱5,266	**₱–**	₱8	₱458	**₱–**	(₱27)	(₱26)	**₱3,905**	₱5,006	₱5,698
Results															
Segment result	**(₱298)**	(₱2,264)	(₱844)	**(₱800)**	(₱959)	(₱665)	**(₱16)**	(₱50)	(₱107)	**₱67**	₱590	₱167	**(₱1,047)**	(₱2,683)	(₱1,449)
Investment income	**₱596**	₱1,675	₱68	**₱–**	₱275	₱136	**₱–**	(₱3)	(₱13)	**₱1,297**	₱422	₱504	**1,893**	2,369	695
Finance cost													**(3,157)**	(2,278)	(1,841)
Income before income tax													**(2,311)**	(2,592)	(2,595)
Income tax													**(3)**	(2)	–
Share in extraordinary loss of an associate														–	(2,097)
Minority interest													**950**	689	648
Net income													**(₱1,364)**	(₱1,905)	(₱4,044)
Segment Assets and Liabilities															
Segment assets	**₱14,343**	₱15,352	₱14,539	**₱20,106**	₱17,414	₱16,757	**₱38**	₱23	₱461	**(₱1,151)**	(₱1,947)	(₱367)	**₱33,336**	₱30,842	₱31,390
Investment in associates	**13,546**	13,507	10,771	**–**	–	–	**–**	19	22	**857**	(458)	(651)	**14,403**	13,068	10,142
Consolidated total assets													**₱47,739**	₱43,910	₱41,532
Segment liabilities	**₱16,518**	₱15,378	₱9,772	**₱15,817**	₱10,956	₱8,089	**₱40**	₱23	₱281	**(₱4,171)**	(₱3,801)	(₱541)	**₱28,204**	₱22,556	₱17,601
Bank loans and long-term debt	**10,454**	10,350	10,000	**7,071**	7,007	7,889	**5**	–	–	**–**	–	–	**17,530**	17,357	17,889
Consolidated total liabilities													**₱45,734**	₱39,913	₱35,490
Other Segment Information															
Capital expenditures	**₱11**	₱–	₱–	**₱414**	₱445	₱525	**₱–**	₱–	₱–	**₱–**	(₱145)	₱120	**₱425**	₱300	₱645
Depreciation and amortization	**18**	23	25	**256**	247	170	**4**	46	58	**–**	(25)	–	**278**	291	253
Noncash expenses other than depreciation and amortization	**320**	1,978	954	**–**	–	–	**–**	–	81	**–**	–	–	**320**	1,978	1,035

PRO FORMA
(Amounts In Millions)

	Investment Holdings		Water Distribution		Services		Broadcasting		Cable Satellite		Other Business of ABS-CBN		Elimination		Consolidated	
	2004	2003 (As restated - see Note 3)	**2004**	2003	**2004**	2003 (As restated - see Note 3)	**2004**	2003 (As restated - see Note 3)	**2004**	2003 (As restated - see Note 3)	**2004**	2003 (As restated - see Note 3)	**2004**	2003	**2004**	2003 (As restated - see Note 3)
Revenues	**₱–**	₱–	**₱3,905**	₱5,025	**₱–**	₱8	**₱10,798**	₱10,546	**₱3,565**	₱3,002	**₱1,276**	₱1,130	**(₱19)**	(₱8)	**₱19,525**	₱19,703
Intersegment-sales	**–**	–	**–**	–	**–**	–	**59**	73	**118**	120	**95**	54	**(272)**	(247)	**–**	–
Total revenues	**₱–**	₱–	**₱3,905**	₱5,025	**₱–**	₱8	**₱10,857**	₱10,619	**₱3,683**	₱3,122	**₱1,371**	₱1,184	**(₱291)**	(₱255)	**₱19,525**	₱19,703
Results																
Segment result	**(₱298)**	(₱2,264)	**(₱800)**	(₱959)	**(₱16)**	(₱50)	**₱1,367**	₱2,415	**₱252**	(₱16)	**₱121**	₱74	**₱26**	₱304	**₱652**	(₱496)
Investment income	**₱596**	₱1,675	**₱–**	₱275	**₱–**	(₱3)	**₱268**	(₱219)	**₱–**	₱–	**₱–**	₱–	**₱595**	₱175	**1,459**	1,903
Finance cost															**(3,810)**	(2,888)
Income before income tax															**(1,699)**	(1,481)
Income tax															**(287)**	(662)
Share in extraordinary loss of an associate																–
Minority interest															**622**	238
Net income															**(1,364)**	(1,905)
Segment Assets and Liabilities																
Segment assets	**₱14,343**	₱15,352	**₱20,106**	₱17,414	**₱38**	₱23	**₱20,027**	₱19,040	**₱3,696**	₱2,864	**₱1,194**	₱1,168	**(₱10,075)**	(₱10,603)	**₱49,329**	₱45,258
Investment in associates	**13,546**	13,507	**–**	–	**–**	19	**2,607**	2,540	**–**	–	**–**	–	**(1,520)**	(2,642)	**14,633**	13,424
Consolidated total assets															**₱63,962**	₱58,682
Segment liabilities	**₱16,518**	₱15,378	**₱15,817**	₱10,976	**₱40**	₱23	**₱2,628**	₱2,705	**₱1,819**	₱1,332	**₱835**	₱489	**(₱5,645)**	(₱5,274)	**₱32,012**	₱25,629
Bank loans and long-term debt															**23,966**	23,148
Income tax payable															**14**	124
Consolidated total liabilities															**₱55,992**	₱48,901
Other Segment Information																
Capital Expenditures	**₱11**	₱–	**₱414**	₱445	**₱–**	₱–	**₱1,640**	₱1,338	**₱289**	84	**₱55**	182	**(₱14)**	(₱191)	**₱2,395**	₱1,858
Depreciation and amortization	**18**	23	**256**	247	**4**	46	**1,763**	1,784	**177**	142	**99**	184	**(5)**	(55)	**2,312**	2,371
Noncash expenses other than depreciation and amortization	**320**	1,978	**–**	–	**–**	–	**281**	242	**201**	112	**23**	32	**–**	–	**825**	2,364

Geographical Segment Data

The following tables present revenue and expenditure and certain asset information regarding geographical segments of ABS-CBN for the years ended December 31, 2004, 2003 and 2002.
(Amounts in Millions)

	Philippines			United States			Others			Eliminations			Consolidated		
	2004	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)	**2004**	2003	2002	**2004**	2003	2002	**2004**	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)	**2004**	2003 (As restated - see Note 3)	2002 (As restated - see Note 3)
Revenue															
External sales	**₱10,616**	₱10,274	₱8,921	**₱2,621**	₱2,176	₱1,749	**₱338**	₱190	₱238	**₱–**	₱–	₱–	**₱13,575**	₱12,640	₱10,908
Inter-segment sales	**271**	248	177	**–**	–	–	**–**	–	–	**(271)**	(248)	(177)	**–**	–	–
Total revenue	**₱10,887**	₱10,522	₱9,098	**₱2,621**	₱2,176	₱1,749	**₱338**	₱190	₱238	**(₱271)**	(₱248)	(177)	**₱13,575**	₱12,640	₱10,908
Other segment information															
Segment assets	**₱22,070**	₱22,244	₱21,939	**₱1,911**	₱1,212	₱822	**₱3,542**	₱2,155	₱854	**(₱3,908)**	(₱3,395)	(₱1,908)	**₱23,615**	₱22,216	₱21,707
Capital expenditures															
Property and equipment	**807**	852	849	**65**	41	32	**42**	14	21	**–**	–	–	**914**	907	902
Intangible assets	**1,018**	779	876	**6**	–	–	**46**	–	212	**(14)**	(46)	–	**1,056**	733	1,088

30. **Other Matters**

a. In 1972, ABS-CBN discontinued its operations when the government at that time took possession of its property and equipment. In the succeeding years, the properties were used without compensation to ABS-CBN by Radio Philippine Network, Inc. (RPN) from 1972 to 1979, and by Maharlika Broadcasting System (MBS) from 1980 to 1986. A substantial portion of these properties was also used from 1986 to 1992 without compensation to ABS-CBN by People's Television 4, another government entity. In 1986, ABS-CBN resumed commercial operations and it was granted temporary permits by the government to operate several television and radio stations.

   ABS-CBN, together with Chronicle Broadcasting System, filed a civil case on January 14, 1988 against Ferdinand E. Marcos and his family, RPN, MBS, et. al., before the Sandiganbayan to press collection of the unpaid rentals for the use of its facilities from September 1972 to February 1986 totaling ₱305 million plus legal interest compounded quarterly and exemplary damages of ₱100 million.

   ABS-CBN's BOD resolved on June 27, 1991 to declare as scrip dividends, in favor of all stockholders of record as of that date, whatever amount that may be recovered from the foregoing pending claims and the rentals subsequently settled in 1995. The scrip dividends were declared on March 29, 2000. In 2003, additional scrip dividends of ₱13 million were recognized for the said stockholders. In 2003, additional scrip dividends of ₱13 million were recognized for the said stockholders.

   On April 28, 1995, ABS-CBN and the government entered into a compromise settlement of rentals from 1986 to 1992. The compromise agreement includes payments to ABS-CBN of ₱30 million (net of government's counterclaim against ABS-CBN of ₱68 million) by way of tax credits or other forms of noncash settlement as full and final settlement of the rentals from 1986 to 1992. The tax credit certificates were issued in 1998.

b. Maynilad Water is registered with the Board of Investment (BOI) under Executive Order No. 226, as amended, as a new operator of water supply and sewerage system for the West Service Area on a pioneer status under the Omnibus Investment Code of 1987.

   The registration entitles Maynilad Water to incentives which include, among others, income tax holiday (ITH) for a period of six years beginning on Commencement Date or from actual start of commercial operations, whichever comes first.

   On December 22, 1998, the BOI approved the deferment of the reckoning date of availment of the ITH incentives from August 1997 to August 2001. The ITH period covers from August 2001 to July 2007.

   Maynilad Water availed of the ITH incentives amounting to ₱0.82 million and ₱4.38 million for the years ended December 31, 2004 and 2003, respectively.

c. The detailed effect on the 2003 consolidated financial position and net cash flows with the sale of C-Cubed follow:

	Amounts
	(In Millions)
Cash	₱26
Receivables	34
Other current assets	5
Property and equipment	206
Interest in joint ventures	51
Other noncurrent assets	16
Total assets	338
Notes payable	–
Accounts payable and other current liabilities	124
Current portion of obligations under capital lease	36
Total current liabilities	160
Obligations under capital lease- net of current portion	11
Due to affiliates	–
Total noncurrent liabilities	11
Total liabilities	171
SHE	167
Total SHE and liabilities	338
Net identifiable assets and liabilities	19
Gain on disposal	126
Consideration received	145
Cash disposed of	26
Net cash inflow	₱119

31. **Notes to Consolidated Statements of Cash Flows**

	Historical			Pro Forma	
	2004	2003	2002	**2004**	2003
			(In Millions)		
Noncash investing and financing activities:					
Suspended concession fee payments and related interest to MWSS	**₱2,425**	₱2,670	₱2,312	**₱2,425**	₱2,670
Acquisition of property and equipment under capital lease	**–**	–	–	**82**	72
Acquisition of property and equipment on account	**–**	–	–	**21**	163
Acquisition of program rights on account	**–**	–	–	**140**	106
Investment in SOARs	**–**	1,100	–	**–**	1,100
Sale of FPIDC shares in exchange for Notes receivable	**–**	370	–	**–**	370
Conversion of short-term loans to long-term debt	**–**	–	–	**–**	191