SEC Number **AS093004369**
File Number ______________

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

(Company's Full Name)

4th Floor, Benpres Building
Meralco Avenue, Pasig City

(Company's Address)

631-3111

(Telephone Number)

December 31

(Year Ending)
(month & day)

Annual Audited Consolidated
Financial Statements

Form Type

Amendment Designation (If applicable)

December 31, 2001

Period Ended Date

(Secondary License Type and File Number)

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2001 AND 2000
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2001

SGV & Co

SyCip Gorres Velayo & Co

6760 Ayala Avenue
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Report of Independent Public Accountants

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, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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 financial statements referred to above present fairly, in all material respects, the financial position of Benpres Holdings Corporation and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

We have examined the pro forma adjustments reflecting the 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, 2001 and 2000 and the pro forma consolidated statements of income 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, 2001 and 2000, and the pro forma consolidated statements of income and cash flows for the years then ended.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue operating in the normal course. As discussed in Note 1, the Parent Company's long-term direct obligations and additional liabilities that may arise from its guarantee and commitments are due for payment in 2002 and 2003. Management's plans in regard to these matters are also described in Note 1. The ability of the Company to continue operating in the normal course depends on the success of its balance sheet management plan. As also discussed in Note 1, the Company has significant investments, advances and guarantee in Bayan Telecommunications Holdings Corporation (BayanTel). The ability of BayanTel to continue operating in the normal course and correspondingly, the recoverability of the Parent Company's additional investments in BayanTel that may arise from the portion of the guarantee and commitments that have not been provided for, depend on the success of BayanTel's debt restructuring plan and future operations. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As explained in Note 5, the Parent Company has given retroactive effect to the change in accounting for foreign exchange losses.

R. F. S. REYES
Partner
CPA Certificate No. 26815
PTR No. 6723088
January 2, 2002
Makati City

March 22, 2002

SGV & Co

SyCip Gorres Velayo & Co

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Report of Independent Public Accountants

The Stockholders and the Board of Directors
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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 financial statements referred to above present fairly, in all material respects, the financial position of Benpres Holdings Corporation and Subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the Philippines.

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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.

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The accompanying consolidated financial statements have been prepared assuming that the Company will continue operating in the normal course. As discussed in Note 1, the Parent Company's long-term direct obligations and additional liabilities that may arise from its guarantee and commitments are due for payment in 2002 and 2003. Management's plans in regard to these matters are also described in Note 1. The ability of the Company to continue operating in the normal course depends on the success of its balance sheet management plan. As also discussed in Note 1, the Company has significant investments, advances and guarantee in Bayan Telecommunications Holdings Corporation (BayanTel). The ability of BayanTel to continue operating in the normal course and correspondingly, the recoverability of the Parent Company's additional investments in BayanTel that may arise from the portion of the guarantee and commitments that have not been provided for, depend on the success of BayanTel's debt restructuring plan and future operations. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As explained in Note 5, the Parent Company has given retroactive effect to the change in accounting for foreign exchange losses.

PTR No. 6723088
January 2, 2002
Makati City

March 22, 2002

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

	Historical		Pro Forma	
	December 31			
	2001	2000	**2001**	2000
		(As Restated)		*(As Restated)*
ASSETS				
Current Assets				
Cash and cash equivalents (Note 6)	**₱629**	₱4,378	**₱962**	₱4,851
Marketable equity securities - net (Note 7)	**302**	–	**302**	265
Receivables - net (Note 8)	**811**	627	**4,596**	3,559
Program rights (Note 18)	**–**	–	**1,847**	1,866
Other current assets - net (Notes 9 and 22)	**806**	905	**1,169**	1,228
Total Current Assets	**2,548**	5,910	**8,876**	11,769
Noncurrent Assets				
Investments and advances - net (Notes 1, 2, 10 and 18)	**24,287**	23,821	**17,667**	17,842
Property and equipment at cost - net (Notes 11, 16 and 28)	**3,621**	2,237	**14,993**	12,128
Land and improvements at revalued amounts - net (Notes 12 and 28)	**–**	–	**634**	519
Due from affiliated companies (Note 18)	**–**	–	**315**	342
Other noncurrent assets - net (Notes 1, 4, 13, 18, 22, 25 and 28)	**17,955**	16,417	**21,571**	19,607
Total Noncurrent Assets	**45,863**	42,475	**55,180**	50,438
	₱48,411	₱48,385	**₱64,056**	₱62,207
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Bank loans (Notes 4 and 14)	**₱8,428**	₱7,823	**₱12,293**	₱10,124
Accounts payable and other current liabilities (Note 15)	**5,437**	1,745	**8,095**	4,287
Current portion of long-term debt (Note 16)	**7,754**	1,000	**8,314**	1,320
Current portion of estimated liabilities from guarantee and commitments (Note 1)	**2,688**	–	**2,688**	–
Total Current Liabilities	**24,307**	10,568	**31,390**	15,731
Noncurrent Liabilities				
Long-term debt - net of current portion (Note 16)	**2,012**	9,510	**4,452**	12,510
Estimated liabilities from guarantee and commitments - net of current portion (Note 1)	**3,670**	–	**3,670**	–
Other noncurrent liabilities (Notes 17, 18 and 22)	**1,129**	518	**1,676**	1,415
Minority interest	**2,224**	2,176	**7,799**	6,938
Total Noncurrent Liabilities	**9,035**	12,204	**17,597**	20,863
Stockholders' Equity (Notes 5, 10 and 16)				
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 revaluation increment of affiliates' properties	**3,362**	3,920	**3,362**	3,920
Equity adjustment from translation	**49**	(49)	**49**	(49)
Retained earnings	**311**	10,395	**311**	10,395
Total Stockholders' Equity	**15,069**	25,613	**15,069**	25,613
	₱48,411	₱48,385	**₱64,056**	₱62,207

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Millions, Except Per Share Amounts)

	Historical			Pro Forma	
	Years Ended December 31				
	2001	2000	1999	**2001**	2000
		(As Restated)	*(As Restated)*		*(As Restated)*
REVENUES					
Accretion of earnings on Notes (Notes 2 and 10)	**₱688**	₱1,419	₱1,840	**₱–**	₱–
Gain on sale of investments (Notes 10)	**520**	2,070	3,975	**520**	2,070
Net sales and services	**153**	–	–	**2,561**	1,763
Interest income	**143**	117	117	**167**	179
Interest on Notes (Notes 2 and 10)	**134**	131	131	**–**	–
Airtime - net	**–**	–	–	**8,105**	7,556
Others (Note 18)	**66**	248	115	**162**	430
	1,704	3,985	6,178	**11,515**	11,998
COSTS AND EXPENSES					
Provisions for:					
Estimated liabilities from guarantee and commitments (Note 1)	**6,358**	–	–	**6,358**	–
Decline in value of:					
Other noncurrent assets (Notes 1 and 13)	**2,217**	–	–	**2,217**	–
Investments and advances (Notes 1 and 10)	**1,325**	1,350	–	**1,325**	1,350
Marketable equity securities (Note 7)	**88**	–	–	**88**	96
Interest and financing charges (Notes 14 and 16)	**1,036**	853	876	**1,689**	959
General and administrative (Note 19)	**530**	270	270	**3,404**	2,698
Equity in net losses of investees (Notes 1 and 10)	**184**	663	2,653	**240**	574
Foreign exchange losses (Note 5)	**215**	1,202	344	**232**	1,251
Costs of sales and services (Note 20)	**4**	–	–	**1,110**	886
Production costs (Note 21)	**–**	–	–	**3,606**	2,765
	11,957	4,338	4,143	**20,269**	10,579
INCOME (LOSS) BEFORE INCOME TAX AND MINORITY INTEREST	**(10,253)**	(353)	2,035	**(8,754)**	1,419
PROVISION FOR INCOME TAX (Note 22)					
Current	**7**	1	20	**883**	995
Deferred	**–**	–	–	**7**	73
	7	1	20	**890**	1,068
INCOME (LOSS) BEFORE MINORITY INTEREST	**(10,260)**	(354)	2,015	**(9,644)**	351
MINORITY INTEREST	**9**	–	–	**(607)**	(705)
NET INCOME (LOSS) (Notes 5 and 24)	**(₱10,251)**	(₱354)	₱2,015	**(₱10,251)**	(₱354)
Earnings (Loss) Per Share (Note 24)					
Basic	**(₱2.2375)**	(₱0.0773)	₱0.4398	**(₱2.2375)**	(₱0.0773)
Diluted	**–**	–	0.4397	**–**	–

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in Millions, Except Number of Shares and Par Value Amounts)

	Years Ended December 31		
	2001	2000	1999
		(As Restated)	*(As Restated)*
CAPITAL STOCK - ₱1 par value			
Authorized - 5,500,000,000			
Issued - 4,581,544,408	**₱4,581**	₱4,581	₱4,581
CAPITAL PAID IN EXCESS OF PAR VALUE	**6,766**	6,766	6,766
SHARE IN REVALUATION INCREMENT OF AFFILIATES' PROPERTIES (Note 10)			
Balance at beginning of year	**3,920**	3,565	4,190
Additions (reductions)	**(391)**	416	(578)
Share in transfer of affiliates' realized revaluation increment	**(167)**	(61)	(47)
Balance at end of year	**3,362**	3,920	3,565
EQUITY ADJUSTMENT FROM TRANSLATION (Note 10)			
Balance at beginning of year	**(49)**	(37)	(19)
Equity adjustment from translation during the year	**98**	(12)	(18)
Balance at end of year	**49**	(49)	(37)
RETAINED EARNINGS (Note 10)			
Balance at beginning of year			
As previously reported	**11,822**	11,393	9,138
Change in accounting policy with respect to the deferral and capitalization of foreign exchange differentials (Note 5)	**(1,427)**	(705)	(512)
As adjusted	**10,395**	10,688	8,626
Net income (loss)	**(10,251)**	(354)	2,015
Share in transfer of affiliates' realized revaluation increment	**167**	61	47
Balance at end of year	**311**	10,395	10,688
	₱15,069	₱25,613	₱25,563

See accompanying Notes to Consolidated Financial Statements.

BENPRES HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Millions)

	Historical			Pro Forma	
	Years Ended December 31				
	2001	2000	1999	**2001**	2000
		(As Restated)	*(As Restated)*		*(As Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES					
Income (loss) before income tax and minority interest	**(₱10,253)**	(₱353)	₱2,035	**(₱8,754)**	₱1,419
Adjustments for:					
Provisions for:					
Estimated liabilities from guarantee and commitments	**6,358**	–	–	**6,358**	–
Decline in value of:					
Other noncurrent assets	**2,217**	–	–	**2,217**	–
Investments and advances	**1,325**	1,350	–	**1,325**	1,350
Marketable equity securities	**88**	–	–	**88**	96
Other losses	**42**	–	–	**42**	–
Interest and financing charges	**1,036**	853	876	**1,689**	959
Accretion of earnings on Notes	**(688)**	(1,419)	(1,840)	–	–
Gain on sale of investments	**(520)**	(2,070)	(3,975)	**(520)**	(2,070)
Loss on sale of ESOP	**–**	–	–	**47**	–
Equity in net losses of investees	**184**	663	2,653	**240**	574
Foreign exchange losses	**215**	1,202	344	**224**	1,250
Depreciation and amortization	**147**	110	146	**1,736**	1,150
Interest income	**(143)**	(117)	(117)	**(167)**	(179)
Interest on Notes	**(134)**	(131)	(131)	–	–
Provision for doubtful accounts	**–**	–	–	**145**	70
Operating income (loss) before working capital changes	**(126)**	88	(9)	**4,670**	4,619
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Receivables	**(36)**	(19)	233	**(951)**	134
Program rights	**–**	–	–	**(492)**	(1,078)
Other current assets	**(20)**	6	64	**(47)**	368
Increase (decrease) in accounts payable and other current liabilities	**252**	(56)	(16)	**501**	848
Cash generated from (used in) operations	**70**	19	272	**3,681**	4,891
Dividends and interest received from investees	**268**	277	261	**2**	2
Interest received	**143**	117	117	**170**	196
Interest and financing charges paid	**(1,650)**	(1,450)	(1,027)	**(2,429)**	(2,107)
Income tax paid	**(1)**	(1)	(19)	**(884)**	(1,225)
Net cash provided by (used in) operating activities	**(1,170)**	(1,038)	(396)	**540**	1,757

(Forward)

	Historical			Pro Forma	
	Years Ended December 31				
	2001	2000	1999	**2001**	2000
		(As Restated)	*(As Restated)*		*(As Restated)*
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (increase) in:					
Other noncurrent assets	**(₱486)**	(₱2,498)	(₱2,028)	**(₱1,267)**	(₱3,676)
Due from affiliates	**–**	–	–	**27**	195
Proceeds from sale of investments	**850**	3,023	11,224	**850**	3,023
Proceeds from sale of ESOP	**–**	–	–	**112**	–
Acquisition of investments and increase in advances	**(2,803)**	(1,445)	(355)	**(2,512)**	(2,133)
Additions to property and equipment	**(1,566)**	(1,248)	(952)	**(4,127)**	(5,768)
Additional deposits for option to purchase	**–**	(345)	(2,580)	**–**	(345)
Changes in assets and liabilities of Maynilad Water Services, Inc., a subsidiary on pre-operating stage:					
Decrease (increase) in:					
Accounts receivable	**53**	(258)	(252)	**53**	(258)
Other current assets	**1**	(734)	(104)	**1**	(734)
Increase in accounts payable and other current liabilities	**1,402**	845	240	**1,402**	845
Net cash provided by (used in) investing activities	**(2,549)**	(2,660)	5,193	**(5,461)**	(8,851)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of loans and long-term debt	**(1,020)**	(2,178)	(3,010)	**(2,820)**	(4,519)
Availments of loans and long-term debt	**322**	5,674	2,983	**3,357**	10,519
Increase (decrease) in:					
Due to affiliates	**595**	(858)	(447)	**225**	(693)
Minority interest	**57**	144	687	**254**	832
Other noncurrent liabilities	**16**	12	30	**16**	12
Pretermination of equity option	**–**	–	(1,485)	**–**	–
Net cash provided by (used in) financing activities	**(30)**	2,794	(1,242)	**1,032**	6,151
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(3,749)**	(904)	3,555	**(3,889)**	(943)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,378**	5,282	1,727	**4,851**	5,794
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱629**	₱4,378	₱5,282	**₱962**	₱4,851

See accompanying Notes to Consolidated Financial Statements.

(Amounts in Millions, Except Par Value and Per Share Amounts, Percentage of Ownership, Number of Shares and Units, and Number of Employees)

1. General and Status of Operations

Benpres Holdings Corporation (Parent Company) is incorporated in the Philippines. In the historical consolidated financial statements, the Parent Company and its subsidiaries (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 company. In the historical and pro forma consolidated financial statements, the Company's affiliates are involved in telecommunications, power generation and distribution, cable television, real estate 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 30 in 2001, 31 in 2000 and 23 in 1999. On a consolidated basis, the average number of employees and talents (for pro forma) follows:

	Historical	Pro Forma
2001	3,409	9,248
2000	2,473	8,068
1999	2,473	7,667

As of December 31, 2001, the Parent Company's total investments and deposits in and advances to BayanTel amounted to ₱4,892 (see Notes 10 and 13) and has commitments to acquire approximately US$52 BayanTel shares from certain shareholders of BayanTel as discussed in Note 25 (c). In addition, the Parent Company has guaranteed the redemption of the convertible preferred shares issued by BayanTel with an outstanding accreted value of US$167 at redemption date. Pursuant to this 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. Under the Indemnity Agreement, BayanTel shall indemnify and keep the Parent Company indemnified by paying the Parent Company the guaranteed obligations actually paid by the Parent Company within forty five days from the date of such payment. BayanTel shall also indemnify the Parent Company for all costs, liabilities, losses and expenses, that the Parent Company may incur by reason of, in connection with, or in relation to the guarantee.

BayanTel's main operating subsidiary, Bayan Telecommunications, Inc. (BTI), has suffered recurring losses. For the years ended December 31, 2001 and 2000, BayanTel has incurred consolidated net losses of ₱3,748 (unaudited) and ₱3,246, respectively. On January 16, 2001, BTI failed to pay interest due on its bond payable and on January 19, 2001 declared that it will seek restructuring of its debts. A significant portion of BTI's debt is guaranteed by BayanTel. BTI has been in discussion with its creditors on the planned restructuring of its debts and has appointed BA Asia Ltd. to assist in preparing a restructuring plan and in negotiating with the creditors.

The ability of BayanTel and BTI to continue operating in the normal course depends on the acceptance by BTI's creditors of the restructuring plan and the success of BTI's future operations.

In view of the above, the Parent Company has set up a provision for decline in value of its investments in and advances to BayanTel, including its additional investments that may arise from its guarantee and commitments, totaling ₱9,900 in 2001 and ₱1,350 in 2000. As of December 31, 2001, the carrying value of the Parent Company's investments and deposits in and advances to BayanTel have been reduced to zero with the remaining provision credited to "Estimated liabilities from guarantee and commitments" account in the 2001 consolidated balance sheet. Guarantee and commitments that will fall due in 2002 is shown as part of the current liabilities. The portion of the guarantee and commitments that have not been provided for would approximately amount to ₱5,000. Such amount represents management's estimate of the Parent Company's share in the remaining potential net worth of BayanTel.

BayanTel owns 47% of Express Telecommunication Company, Inc. (Extelcom). Extelcom has been continually incurring significant losses leading BayanTel's management to believe that Extelcom would have difficulty generating revenues that would allow the recovery of its investments in Extelcom. Correspondingly, in 1999, BayanTel's management set up a provision for decline in value of its investment in Extelcom. The Parent Company's share in the decline in value of BayanTel's investment in Extelcom amounted to ₱2,068 and was recorded as part of "Equity in net losses of investees" account in the 1999 historical consolidated statement of income.

Condensed consolidated significant financial information of BayanTel and subsidiaries before intercompany eliminations is as follows:

	2001 (Unaudited)	2000
Accounts receivable - net	**₱3,338**	₱1,817
Property and equipment - net	**30,587**	32,231
Other noncurrent assets	**2,540**	2,765
Total assets	**37,955**	37,785
Loans payable	**1,259**	1,258
Long-term debt, including current portion	**22,994**	22,430
Stockholders' equity	**4,885**	8,633
Net loss	**3,748**	3,246

Long-term direct obligations of the Parent Company due for payment amount to about ₱7,754 in the last quarter of 2002 and ₱2,000 in 2003. In addition, by virtue of its guarantee and commitments, the Parent Company may be liable for certain obligations that will fall due in 2002 and 2003 amounting to approximately US$413 [see Note 25(b) and (c)]. Credit Suisse First Boston has been appointed as financial adviser to assist the Parent Company in reviewing its capital structure as well as in preparing a balance sheet management plan (Plan) that will enable them to address their maturing direct obligations as well as contingent obligations that may arise from its guarantee and commitments. The Plan may include, among others, reduction of debt, raising of cash, reduction of cost and investments, and an asset-sale program. The Plan is also designed to accommodate various scenarios depending on the success of the Parent Company's asset-sale program and debt reduction initiatives. As of March 22, 2002, however, the details of the Plan have not yet been finalized.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue operating in the normal course. The ability of the Company to continue operating in the normal course depends on, among others, the success of the Plan. In addition, the recoverability of the Parent Company's additional investments in BayanTel, that may arise from the portion of the guarantee and commitments that have not been provided for, amounting to approximately ₱5,000, depends on the success of BayanTel's debt restructuring plan and future operations. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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

In April 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 (Sky Vision) to Lopez, Inc. (Lopez), a majority stockholder. On March 16, 1998, the National Telecommunications Commission (NTC) authorized the transfer of the ABS-CBN and Sky Vision shares and on April 21, 1998, the transfer was approved by the creditors of the Parent Company for the release of the ABS-CBN and Sky Vision shares from the negative pledge covenants included in the terms of outstanding long-term commercial papers (LTCPs).

In April 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 and 162,463,400 shares of Sky Vision at its book value of ₱2.75 per share equivalent to ₱447 in exchange for cash of ₱75 and Convertible and Nonconvertible Notes ("Notes") of ₱9,504 (Convertible Notes of ₱5,504 and Nonconvertible Notes of ₱4,000). The excess of the market value of ABS-CBN shares against its carrying value, amounting to ₱4,310, is credited to "Deferred income" and offset against the value of the Notes in the historical consolidated balance sheets. 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 Sky Vision shares. After the transfer, Lopez had 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 Sky Vision ("Conversion Quantity") at a conversion price of ₱5,504 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 at 1.5%, subject to adjustments as agreed by both parties.

As of December 31, 2001 and 2000, the outstanding balance of the Notes amounted to ₱8,072 and ₱7,745, respectively. The underlying shares totaled 441,569,422 and 461,327,722 in 2001 and 2000, respectively, of ABS-CBN [including 188,900 Philippine Deposit Receipts (PDRs) in 2001 and 4,099,400 PDRs in 2000 - see Note 10] and 162,463,400 Sky Vision shares in 2001 and 2000.

Pro forma consolidated financial statements are presented to show the effect assuming the Parent Company exchanged the Notes for the underlying ABS-CBN and Sky Vision shares immediately after the transfer. The pro forma adjustments were made to reflect the consolidation of the financial statements of ABS-CBN with those of the Parent Company and the application of the equity method of accounting for the investment in Sky Vision.

Condensed consolidated financial information of ABS-CBN before intercompany eliminations, included in the pro forma consolidated financial statements, is as follows:

	2001	2000
Receivables - net	**₱3,785**	₱2,941
Program rights	**1,847**	1,866
Investments and advances	**1,062**	1,462
Property and equipment at cost - net	**11,372**	9,891
Land and improvements at revalued amounts - net	**634**	519
Total assets	**23,119**	21,037
Total liabilities	**10,094**	9,186
Stockholders' equity	**13,025**	11,851
Revenues	**10,512**	9,319
Operating expenses	**7,561**	6,079
Net income	**1,484**	2,261

ABS-CBN is incorporated in the Philippines and is the largest media broadcasting company in the Philippines. ABS-CBN and its subsidiaries (collectively referred to as the "Group") are involved in the business of television and radio broadcasting, video/audio post production, movie production, audio recording and distribution, film distribution, cable and direct-to-home television distribution and telecommunication services overseas. Other activities of the Group include merchandising and licensing, internet services and publishing.

The subsidiaries of ABS-CBN include ABS-CBN Center for Communication Arts, ABS-CBN Consumer Products, Inc., ABS-CBN Europe SpA, 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 International, Inc., Star Recording, Inc., Studio 23, Inc., Roadrunner Network, Inc., ABS-CBN International, Inc. and E-Money Plus.

3. Deconsolidation of First Philippine Infrastructure Development Corporation (FPIDC)

FPIDC was established in 1994 following a Memorandum of Understanding (MOU) executed among a host of government agencies, the Parent Company and First Philippine Holdings Corporation (FPHC), for the rehabilitation and expansion of the North Luzon Expressway (NLE). As of December 31, 2000, FPIDC is owned 70% by the Parent Company and 30% by FPHC. In 1995, FPIDC entered into a joint venture with the Philippine National Construction Corporation (PNCC) and Egis Projects SA of France (Egis) to organize the Manila North Tollways Corporation (MNTC). As of December 31, 2000, MNTC is held 60%, 20% and 20% by FPIDC, PNCC and Egis, respectively, collectively referred to as "MNTC Principal Shareholders." MNTC intends to convert the NLE into a safe, modern, high-speed expressway linking Metro Manila with the emerging special economic zones of Clark and Subic. The Project includes the completion of the northern area of the circumferential road (C-5); the widening, redesign and modernization of the present NLE; and the construction of the Subic area of the NLE to connect it to the Subic Bay Metropolitan Area (SBMA).

The Project is divided into three phases described as follows:

Phase I	Rehabilitation and expansion of approximately 82 km of the existing NLE and a 7 km stretch of a greenfield expressway
Phase II	Construction of the northern parts of the 29 km circumferential road C-5 which will connect the current C-5 expressway with the NLE
Phase III	Construction of the 64 km Subic arm of the NLE to SBMA

Phase I of the project encompasses the rehabilitation and expansion of four tollway segments, namely Segments 1, 2, 3 and 7. Segments 1, 2 and 3, which form the NLE, is an 82-km long stretch of road extending from Metro Manila to Clark while Segment 7 is a 7-km stretch of road linking Tipo and Subic. The design and construction of Phase I is to take approximately 24 months. Total estimated cost of Phase I of the Project is US$371. As of March 22, 2002, MNTC has not yet started commercial operations.

On December 13, 2001, the MNTC principal shareholders amended their Shareholders' Agreement dated December 16, 1999, to reflect, among others, revisions in their equity participation in MNTC and cost of capital.

In 2001, the Parent Company sold 3,700,000 shares of FPIDC equivalent to ₱370 to Lopez in exchange for a Notes Receivable (see Note 13). The notes receivable from Lopez is collectible, on a lump sum payment, in 2004. The notes receivable is secured by a pledge of the underlying FPIDC shares sold.

After the transfer, the equity interest of the Parent Company in FPIDC was reduced to 30%. Accordingly, the financial statements of FPIDC were no longer consolidated to the Parent Company's financial statements. Since the transfer involves related parties, the transfer was accounted for in a manner similar to pooling of interest method. Accordingly, prior year consolidated financial statements were restated to reflect the deconsolidation of FPIDC.

Condensed consolidated financial information of FPIDC is as follows:

	2001	2000
Investments and advances	**₱343**	₱–
Project development costs	**6,344**	4,606
Total assets	**7,079**	5,050
Advances from stockholders	**3,834**	2,179
Loans payable	**892**	927
Total liabilities	**5,643**	3,775
Stockholders' equity	**925**	925

4. Supplemental Information on Maynilad Water Services, Inc. (Maynilad Water)

On February 21, 1997, Maynilad Water entered into a Concession Agreement (Agreement) with Metropolitan Waterworks and Sewerage System (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 Agreement sets forth the rights and obligations of the Company throughout the concession period. The MWSS Regulatory Office (Regulatory Office) acts as the regulatory body of the Concessionaires (the Company and the East Concessionaire - Manila Water Company, Inc.).

Under the 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 delivery services and sewerage services in the West Service Area for 25 years commencing on August 1, 1997 (the Commencement Date). Maynilad Water is also tasked, together with the East Concessionaire to manage, operate, repair, decommission and refurbish certain common purpose facilities.

On Commencement Date, 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 rehabilitation works on the distribution lines and non-revenue water projects, and the completion of the water supply, distribution and sewerage projects of MWSS. However, due to various events discussed in the succeeding paragraphs, there had been substantial delay in the completion of vital rehabilitation projects and deferment of vital new capital expenditures. The projects are closely interdependent and a delay in any one of the projects will result in Maynilad Water not being able to utilize the full potential of the other projects, and the water supply and distribution system as a whole. Until then, the project is deemed to be in the rehabilitation phase with the operating costs and expenses, net of water revenues, capitalized as development costs. Maynilad Water expects to commence full commercial operations on January 1, 2003. It is during this time that the vital projects will be substantially completed and the vital capital expenditures will be ongoing. In addition, the rate rebasing mechanism, which is specifically intended to address the problems faced by Maynilad Water during the past years and to ensure its viability in the interest of the consuming public, will also take effect on January 1, 2003.

On March 8, 2001, Maynilad Water served a "force majeure" notice on MWSS and suspended its concession fee payments pursuant to Section 16.10 of the Agreement. Under the Agreement, Maynilad Water and the Regulatory Office will consult each other and take all reasonable steps to minimize either party's losses resulting from each event of "force majeure" cited.

In its notice to the Regulatory Office, Maynilad Water cited among others, the prolonged drought of El Niño from July 1997 to November 1998, which had a serious negative impact on the economics of the concession. Maynilad Water also cited as a "force majeure" factor, the failure of MWSS to complete or to support the completion of vital concession fee projects on time, such as the Umiray Angat Transbasin Project (UATP), Manila South Water Distribution Project, Angat Water Supply Optimization Project, Manila Second Sewerage Project (MSSP) and LMAQ-3 Project. The commissioning of the UATP on June 23, 2000 has not provided Maynilad Water the optimum water supply pending completion of the LMAQ-3 Project. The UATP is set to deliver 800 million liters per day of raw water for the full utilization of La Mesa Treatment Plant No. 2. Maynilad Water also cited that MWSS failed to initiate the critical 300 million liters per day water supply project in Laguna de Bay (300 MLD BOT Project). These delays have brought serious financial impact to Maynilad Water.

Further to the "force majeure" notice, Maynilad Water filed a Petition for Prohibition with Prayer for the Issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Philippine Court of Appeals (PCA) on March 20, 2001, to restrain MWSS from prematurely, improperly and illegally making and transmitting any request or written certification to the issuing banks of the performance bond (standby letter of credit), posted by Maynilad Water pursuant to Section 6.9 of the Agreement, for the purpose of effecting one or more drawings under the said performance bond. Thereafter, on March 22, 2001, the PCA issued a TRO enjoining MWSS and its agents from submitting any request or written certification to the issuing banks for the purpose of effecting or drawing upon the performance bond. The TRO expired on May 21, 2001, and on the same day a Writ of Preliminary Injunction was issued by the PCA. On March 29, 2001, Maynilad Water issued a Dispute Notice dated March 29, 2001 (the "Dispute Notice") to the Chairman of the Appeals Panel pursuant to Section 9.3.3 and Article 12 of the Agreement. Maynilad Water referred to the Appeals Panel its disagreements and objection to the Resolution dated December 8, 2000 issued by the Regulatory Office and confirmed by the MWSS Board of Trustees on the same date regarding the Application for Extraordinary Price Adjustment for the Charging Year 2001 filed by Maynilad Water. The "force majeure" notice of March 8, 2001 was also the subject of a Dispute Notice filed by Maynilad Water with the Appeals Panel for Minor Disputes on August 30, 2001.

On December 12, 2000, Maynilad Water, together with Manila Water Company, Inc. (Manila Water) filed with the Regulatory Office a petition for an automatic Currency Exchange Rate Adjustment (CERA). Such CERA mechanism would allow both Concessionaires to recover through customer billings its foreign exchange losses on its concession fee payments and foreign currency-denominated loans. In their letters dated January 31, 2001 and February 16, 2001, both the MWSS and the Regulatory Office have advised Maynilad Water that they have approved in principle Maynilad Water's request for automatic CERA.

On October 5, 2001, the Company entered into "Amendment No. 1 to the Concession Agreement" (Amendment No. 1) with MWSS which was acknowledged by the Republic of the Philippines on the same date. Amendment No. 1 effectively addressed and settled the possible dispute arising from the "force majeure" notice and provided Maynilad Water with certain reliefs including without limitation, the implementation of effective foreign exchange recovery mechanisms and a general rate rebasing on January 1, 2003. Amendment No. 1 incorporates as integral part thereof the Resolution of the MWSS Board of Trustees No. 457-2001 dated September 3, 2001, as amended by the Resolution of the MWSS Board of Trustees No. 487-2001 dated October 1, 2001 (Resolution). Based on the Resolution and Amendment No. 1, Maynilad Water was allowed to:

a. Implement a rate adjustment of ₱4.21 per cubic meter from October 15, 2001 (which was moved to October 20, 2001 after publication of the rate) to December 31, 2002 to recover realized foreign exchange losses incurred from August 1, 1997 to December 31, 2000, with any unrecovered realized foreign exchange losses to be recovered through the special transitory mechanism (STM);

b. Implement an STM to recover foreign exchange losses for the period beginning January 1, 2001 to December 31, 2001, including foreign exchange losses arising from the (1) repayment of US$100 bridge loan (see Note 14) and short-term loans and other payments relating thereto; (2) payment of suspended concession fees; and (3) past foreign exchange losses incurred from August 1, 1997 to December 31, 2000 which are unrecovered as of December 31, 2002. Such STM shall commence in July 2002 at the latest, for a period of two to four years, with the view to mitigating the impact to the end users and reducing the overall tariff increase in 2003 to 2005 arising from the Rate Rebasing which will take effect on January 1, 2003; and

c. Implement a rate adjustment with respect to present and future foreign exchange losses or gains, including all accruals and carrying costs thereof, from the period January 1, 2002 until the end of the Agreement on a quarterly basis under a Foreign Currency Differential Adjustment (FCDA) mechanism, provided, however, that the adjustment shall not apply to foreign exchange losses arising from the loans and concession fees covered by the STM.

As likewise stipulated in the Resolution, Maynilad Water shall resume payments of maturing debt service obligations subject to its capacity to pay depending on its cash flows as determined by MWSS. However, the balance of all past obligations, as well as future maturing concession fees already advanced or to be advanced by MWSS and related costs and other charges, shall be paid upon closure of Maynilad Water's term loan of US$350 (see Note 14), but no later than June 30, 2002, subject to Section 6 of the Resolution. Under Section 6, any delay on the part of the MWSS on its performance undertaking shall result in the postponement of the June 30, 2002 deadline.

In compliance with Amendment No. 1, Maynilad Water and MWSS filed on November 19, 2001 with the PCA a "Joint Motion for Judgment Based on Compromise Agreement" indicating that they have amicably settled their controversies and disagreements and that the terms of the mutual settlement are embodied in the Resolution and Amendment No. 1, which the PCA approved on February 6, 2002. Further, Maynilad Water has filed its "Notices of Amicable Settlement" of the Dispute Notice filed by it with the Appeals Panel for the termination of the arbitral proceedings in regard thereto, also in compliance with Amendment No. 1.

The MWSS Board of Trustees has exercised its option to implement a general Rate Rebasing on January 1, 2003, and in connection therewith shall enter into an agreement with Maynilad Water within 90 days from the effectivity of the amendments to the Agreement for the:
(a) action plan relating to service targets, including sewerage and water service targets;
(b) rates which will be effective on January 1, 2003 pursuant to the Rebasing Adjustment wherein the Regulatory Office shall strictly apply the provisions of the Agreement; and
(c) issues to be addressed regarding the concerns of the lenders of Maynilad Water (Required Agreements). As of March 22, 2002, the framework for the Rate Rebasing mechanism is still being finalized.

In view of the approval for Maynilad Water to implement the FCDA, the following accounts in the 2000 consolidated financial statements were restated to reflect the accounting effects of FCDA:

	As Previously Reported	Adjustments	As Restated
Concession assets (see Note 13)	₱5,274	₱331	₱5,605
Development costs - capitalized excess of expenses over revenues (see Notes 13 and 28)	4,032	(3,414)	618
Deferred FCDA and STM (see Note 13)	–	3,685	3,685

The adjustments mainly include the following: (a) reclassification of the foreign exchange losses and interest from development costs - capitalized excess of expenses over revenues to deferred FCDA and STM; (b) revaluation of concession assets using the bid rate with the corresponding foreign exchange differential reclassified to deferred FCDA and STM; (c) reversal of the amortization of concession assets previously recorded as part of development costs - capitalized excess of expenses over revenues; and (d) reclassification of certain costs related to rehabilitation work in progress to capitalized excess of expenses over revenues.

On December 14, 2001, the MWSS Board of Trustees approved the following additional price adjustments effective year 2002:

a. Extraordinary Price Adjustment of ₱0.61 per cubic meter; and

b. FCDA of ₱4.07 per cubic meter.

On March 4, 2002, the MWSS Board of Trustees passed Resolution No. 68-2002 (Resolution 68-2002) extending the June 30, 2002 deadline for the payment of suspended concession fees to November 30, 2002 subject to the conditions set forth therein. Resolution 68-2002 provided that MWSS and Maynilad Water shall enter into the Required Agreements no later than the non-extendible deadline of June 30, 2002. It also provided that upon approval by the MWSS Board of Trustees of the rebased rate, Maynilad Water shall, regardless of any appeal taken therefrom, with or without closure of the term loans and with or without the execution of the Required Agreements, pay, no later than November 30, 2002 the full amount of all obligations due then, including all interests, penalties and other related charges such as but not limited to foreign exchange charges arising from foreign currency denominated loans.

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

	2001	2000
Property and equipment - net	**₱3,297**	₱2,148
Concession assets	**6,532**	5,605
Other noncurrent assets	**7,848**	5,350
Total assets	**19,408**	14,900
Loans payable	**8,367**	7,823
Payable to stockholders and an affiliate	**864**	415
Stockholders' equity	**5,302**	5,298

5. **Summary of Significant Accounting Policies**

General
The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Philippines.

Basis of Preparation
The accompanying consolidated financial statements have been prepared under the historical cost convention, except for certain land and improvements in the pro forma consolidated financial statements, which are carried at revalued amounts.

Adoption of New Statements of Financial Accounting Standards (SFAS)
The Company adopted the following SFAS effective January 1, 2001:

- SFAS No. 1 (revised 2000), Presentation of Financial Statements;
- SFAS No. 4 (revised 2000), Inventories;
- SFAS No. 13 (revised 2000), Net Income or Loss for the Period, Fundamental Errors and Changes in Accounting Policies;
- SFAS No. 22 (revised 2000), Cash Flow Statements; and
- SFAS No. 31, Segment Reporting.

Following the new presentation rules under the above SFAS, prior year financial statements were restated to follow the format prescribed by the new standards. Changes made pertain principally to the presentation formats of the consolidated statements of income and consolidated statements of cash flows, the inclusion of consolidated statements of changes in stockholders' equity and segment reporting, presentation of the effects of the change in accounting policy, and the additional disclosures required by such standards.

The effect of adopting the other new standards on the consolidated financial statements is not material.

Principles of Consolidation and Investments
The consolidated financial statements include the accounts of Parent Company and the following subsidiaries:

		Effective Percentage of Ownership			
		Historical		Pro forma	
	Principal Activities	**2001**	2000	**2001**	2000
Customer Contact Center, Inc.	Call center	**100.00**	–	**100.00**	–
Maynilad Water Services, Inc.	Water distribution	**59.00**	59.00	**59.00**	59.00
Bayanmap Corporation	Information service provider	**51.00**	–	**51.00**	–
ABS-CBN and Subsidiaries (see Note 2)	Broadcasting	**–**	–	**57.38**	59.95

The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheets and consolidated statements of income, respectively.

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

Investments in associated companies (generally investments of between 20% to 50% in a company's equity) where significant influence is exercised by the Company are accounted for using the equity method. Under the equity method, the cost of the investments is increased or decreased by the Company's equity in net earnings or losses, share in revaluation increment of affiliates' properties, share in equity adjustment from translation since date of acquisition and dividends received. Equity in net earnings or losses is being adjusted for the straight-line amortization (over 5 to 10 years) of the difference between the cost of such investments and its proportionate share in the underlying net assets of the investee at date of acquisition. Equity adjustment from translation represents adjustments of an affiliate resulting from the translation into Philippine pesos of the foreign currency financial statements of the affiliate's investee. Unrealized intercompany profits are eliminated to the extent of the Company's proportionate share. An allowance is provided for possible losses due to decline in value of investments.

Investment in Notes (see Note 2) is accounted for in a manner similar to equity method of accounting for investments. The investment in Notes is carried at cost, adjusted by the accretion of earnings on Notes and interest accrued (which represents the Parent Company's equity in net earnings or losses on the underlying shares), reduced by equity adjustments from translation, interest received and amortization (over 5 years) of the difference between the cost of the Notes and the Parent Company's proportionate share on the underlying net assets of ABS-CBN and Sky Vision at dates of acquisitions.

Other investments are carried at cost, with adjustments for any significant and apparently permanent decline in value.

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

Marketable Equity Securities
Marketable equity securities are carried 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 and additions are charged to current operations. Any recovery in aggregate market value up to the extent of aggregate cost is credited to current operations. The cost of marketable equity securities sold, if any, is based on the average cost of the shares held at the time of sale.

Receivables
Receivables are stated at face value, net of allowance for doubtful accounts.

Materials and Supplies
Effective January 1, 2001, materials and supplies of Maynilad Water are valued at the lower of cost or net realizable value, in conformity with SFAS No. 4 (revised 2000). Net realizable value is the replacement cost. In prior years, materials and supplies were valued at the lower of cost or market. Cost is determined using the weighted average method. Unrealizable materials and supplies has been fully written off.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. When assets are sold or retired, their cost and their related accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statements of income.

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 fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period the costs are incurred.

Depreciation and amortization is computed using the straight-line method over the following estimated useful lives or the term of the lease for 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	5 years

Rehabilitation work in progress represents costs incurred from contracts entered into by Maynilad Water for preliminary and survey 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
Concession assets of Maynilad Water included in the “Other noncurrent assets” account in the consolidated balance sheets, 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 pesos using the bid rate. The excess of actual concession fee payments over the amount of concession fees translated using

bid rates are deferred as part of “Deferred FCDA.” This will be recovered through billings to customers as approved by the MWSS Board of Trustees (see Note 4). Upon commencement of commercial operations, the total estimated concession fees based on the bid rate and commencement fees will be amortized using a method similar to the unit of production method over the estimated billable water volume for the remaining term of the Concession.

Development Costs
Development costs of Maynilad Water, included in the “Other noncurrent assets” account in the consolidated balance sheets, include: (a) capitalized losses during the rehabilitation phase, which are being deferred until such time that full operational capacity is attained; revenue from water and sewer services are recognized upon supply of water to the customers; (b) interest on advances related to the payment of concession fees, bidding and start-up expenses; and (c) costs incurred, which are directly associated with the bidding process. These will be amortized using a method similar to the unit of production method over the estimated billable water volume for the remaining term of the Concession.

Deferred Charges
Deferred charges consist of costs incurred related to the debt issuance and the development of accounting and information systems. Debt issue cost is amortized over the term of the related loans and bonds using the effective interest rate method. Upon conversion of the bonds, the related unamortized debt issue cost is charged to operations. The development costs of the accounting and information system will be amortized over the estimated useful life of the systems, upon completion of the rehabilitation works.

Preoperating Expenses
All costs and expenses incurred by other subsidiaries since incorporation and prior to the start of commercial operations, reduced by incidental revenues, (shown as part of “Other noncurrent assets” account in the consolidated balance sheets) are deferred and amortized over five years from the start of commercial operations.

Foreign Currency Transactions
Foreign currency transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of the transaction. Exchange rate differences arising from the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the consolidated statements of income in the period in which they arise.

Prior to 2001, exchange gains or losses arising from restatement of long-term borrowings were deferred or capitalized as part of investment cost (for investments accounted for under the equity method) to the extent they were considered adjustments to interest cost (see Borrowing Costs). Deferred foreign exchange adjustments were amortized over the term of the loans while the capitalized foreign exchange adjustments were amortized over the estimated useful lives of the investees’ qualifying assets.

In December 2001, the Accounting Standards Council issued the following exposure drafts that will change the accounting for foreign exchange differentials:

- Exposure Draft No. 51 (ED 51), Deferred Foreign Exchange Differences (an amendment of SFAS No. 8, Accounting for the Effects of Changes in Foreign Exchange Rates) which will eliminate the deferral of foreign exchange differences effective January 1, 2003; and

- Exposure Draft No. 37 (ED 37) (revised), The Effects of Changes in Foreign Exchange Rates*,* which will adopt International Accounting Standards No. 21 and allow the capitalization of foreign exchange differences only under restrictive conditions effective January 1, 2005.

In 2001, the Parent Company changed its accounting policy with respect to the treatment of foreign exchange differentials. In order to conform with the provisions of the above exposure drafts, the Parent Company now expenses, rather than defers or capitalizes such foreign exchange differentials. The change in accounting policy has been accounted for using the benchmark treatment - retroactive adjustments. The comparative statements for 2000 and 1999 have been restated to conform to the changed policy. The effect of the change is an increase in foreign exchange losses of ₱215 (2001), ₱1,202 (2000) and ₱344 (1999). Beginning retained earnings for 1999 has been reduced by ₱512, which is the amount of the adjustment relating to periods prior to 1999.

In the case of Maynilad Water, foreign exchange differentials arising from foreign currency transactions are credited or charged to development costs, except for the following foreign exchange differentials, which are deferred (shown as “Deferred FCDA”) and will be recovered through billings to customers as approved by the MWSS Board of Trustees (see Note 4):

a. Restatement of foreign currency denominated loans;

b. Excess of actual concession fee payments over the amounts of concession fees translated using the original bid rate; and

c. Excess of actual interest payments at exchange spot rates on settlement dates over the amounts of interest translated at drawdown rates.

The management of Maynilad Water believes that the adoption of ED 51 and ED37 will not have a material effect on its financial position, results of operations and cash flows since the MWSS Board of Trustees has allowed the recovery of the foreign exchange differentials through billings to customers.

Other subsidiaries and affiliates will adopt the exposure drafts when they become effective.

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 affiliate (accounted for under the equity method). Capitalization of borrowing costs commences when the activities to prepare the asset of the affiliate 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.

Income Tax
Deferred tax assets and liabilities are recognized for the future tax consequences attributable to: (a) temporary differences between the financial reporting bases of assets and liabilities and their related tax bases; (b) carryforward benefit of the minimum corporate income tax (MCIT); and (c) net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and MCIT and NOLCO are expected to be applied. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Pension Expense
Pension expense is 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. Past service costs, experience adjustments, and the effects of

changes in actuarial assumptions are amortized over the average remaining working lives of 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 26).

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 and information service provider are shown in aggregate as services. Financial information on business segments is presented in Note 27.

For purposes of the pro forma presentation, the significant accounting policies applicable to ABS-CBN are summarized below:

Program Rights
Rights to programs available for broadcast are initially capitalized at the amounts of total license fees payable under the covering license agreements and are charged to income on the basis of program usage.

Property and Equipment
Property and equipment are carried at cost (including capitalized interest), less accumulated depreciation and amortization, except for ABS-CBN's land located at Sgt. Esguerra Avenue, which are substantially carried at revalued amounts as determined by an independent firm of appraisers as of December 31, 1990. Subsequent acquisitions after appraisal date are carried at cost.

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

Land improvements	10 years
Buildings and improvements	20 to 40 years
Television, radio, movie and auxiliary equipment	10 to 15 years
Other equipment	3 to 10 years

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

Project Development Costs
All costs and expenses related to the development of projects for international operations (shown as part of "Other noncurrent assets" account in the pro forma consolidated balance sheets) are deferred and amortized over a period of five years upon commencement of commercial operations of the project.

Tax Credits
Tax credits from government sales availed of 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.

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 20 years starting January 1, 2001.

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

Airtime revenues are recognized as income on the dates the advertisements are aired.

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

Net sales and services include:

a. Subscription fees and channel lease revenue, which are recognized under the accrual basis in accordance with the terms of the agreements.

b. Telecommunications revenues, 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.

c. Sales of inventories, which are recognized, net of sales taxes and 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.

Foreign Currency Transactions
Assets and liabilities of foreign subsidiaries are translated at the exchange rate as of the balance sheet date and, income and expense items are translated using the average rates during the year. Resulting translation adjustments are reported as a separate component under the Stockholders’ Equity.

Operating Lease
Lease payments under an operating lease are recognized as an expense 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.

Business Segments
For purposes of pro forma information, ABS-CBN is considered another operating business. The main business of ABS-CBN is broadcasting and entertainment. Other business activities of ABS-CBN include cable and satellite, consumer products and services. Financial information on ABS-CBN's business and geographical segments is presented in Note 27.

6. Cash and Cash Equivalents

	Historical		**Pro Forma**	
	2001	2000	**2001**	2000
Cash on hand and with banks	**₱113**	₱388	**₱331**	₱593
Short-term investments	**516**	3,990	**631**	4,258
	₱629	₱4,378	**₱962**	₱4,851

7. Marketable Equity Securities

In December 2001, the Parent Company commenced action to acquire marketable equity securities in Digital Telecommunications, Inc. (Digitel) by exercising its right on the pledges, which were used as a security for several money market placements made in the early part of the year, in the aggregate amount of ₱390. The Parent Company is currently in search of interested buyers for the Digitel shares. As of December 31, 2001, the market value of the Digitel shares is lower by ₱88.

8. Receivables

	Historical		**Pro Forma**	
	2001	2000	**2001**	2000
Trade	**₱1,084**	₱860	**₱4,574**	₱3,593
Others	**28**	53	**492**	305
	1,112	913	**5,066**	3,898
Less allowance for doubtful accounts	**301**	286	**470**	339
	₱811	₱627	**₱4,596**	₱3,559

9. Other Current Assets

	Historical		**Pro Forma**	
	2001	2000	**2001**	2000
Materials and supplies	**₱213**	₱259	**₱362**	₱392
Advances to contractors and suppliers	**515**	529	**515**	529
Prepaid taxes and others	**78**	117	**126**	153
Deferred production cost	**–**	–	**112**	113
Deferred tax assets - net (see Note 22)	**–**	–	**54**	41
	₱806	₱905	**₱1,169**	₱1,228

10. **Investments and Advances**

	Historical		Pro Forma	
	2001	2000	**2001**	2000
		(As Restated)		*(As Restated)*
Investments:				
Shares of stock - at equity	**₱13,630**	₱14,442	**₱14,605**	₱15,444
Notes (see Note 2)	**8,072**	7,745	**–**	–
FPHC convertible notes	**1,241**	1,200	**1,241**	1,200
Others - at cost	**18**	15	**119**	133
Advances	**4,001**	1,769	**4,377**	2,415
	26,962	25,171	**20,342**	19,192
Less allowance for decline in value of an investment and advances (see Note 1)	**2,675**	1,350	**2,675**	1,350
	₱24,287	₱23,821	**₱17,667**	₱17,842

The details and movements of investments in shares of stock carried at equity are as follows:

		Historical		Pro Forma	
	Principal Activities	**2001**	2000	**2001**	2000
FPHC, 47.02%-owned in 2001 and 47.07%-owned in 2000	Power generation and distribution	**₱10,809**	₱9,112	**₱10,809**	₱9,112
Rockwell Land Corporation (Rockwell)*, 24.50%-owned	Real estate	**1,510**	1,704	**1,510**	1,704
BayanTel, 47.32%-owned (see Note 1)	Telecommunications	**558**	2,591	**558**	2,591
Professional Services, Inc. (Medical City), 25.00%-owned	Health care	**310**	301	**310**	301
FPIDC, 30%-owned in 2001 and 70%-owned in 2000 (see Note 3)	Infrastructure	**277**	647	**277**	647
Corporate Information Solutions, Inc. (CIS), 49%-owned	Computer services	**52**	87	**52**	87
Sky Vision, 23.07%-owned in 2001 and 23.17%-owned in 2000 (see Note 2)**	Cable television	**–**	–	**882**	889
Bayantrade Dotcom, Inc., 10.25%-owned in 2001	E-commerce	**49**	–	**49**	–
Others	Film distribution, broadcasting and information service provider	**65**	–	**158**	113
		₱13,630	₱14,442	**₱14,605**	₱15,444

** An additional 24.50% of Rockwell is owned by FPHC in 2001 and 2000.*
*** Includes 10.17% and 9.9% interest of ABS-CBN in Sky Vision in 2001 and 2000, respectively.*

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Acquisition costs - net	**₱12,363**	₱12,596	**₱13,336**	₱13,540
Accumulated equity in net losses:				
Balance at beginning of year	**(2,067)**	(1,463)	**(2,010)**	(1,495)
Equity in net losses of investees (net of goodwill amortization of ₱137 in 2001 and ₱40 in 2000 for historical and ₱96 in 2001 and ₱39 in 2000 for pro forma)	**(184)**	(663)	**(240)**	(574)
Share in transfer of affiliates' realized revaluation increment	**167**	61	**167**	61
Dividends received	**(2)**	(2)	**(2)**	(2)
Balance at end of year	**(2,086)**	(2,067)	**(2,085)**	(2,010)
Share in revaluation increment of affiliates' properties	**3,361**	3,919	**3,362**	3,920
Equity adjustment from translation	**(8)**	(6)	**(8)**	(6)
	₱13,630	₱14,442	**₱14,605**	₱15,444

As of December 31, 2001 and 2000, the Companies' equity in net assets of the investee companies exceeded the carrying value of its investments by ₱220 and ₱357, respectively, in the historical consolidated financial statements. In the pro forma consolidated financial statements, the carrying value of the investments exceeded the Companies' equity in net assets of the investee companies by ₱170 and ₱256 as of December 31, 2001 and 2000, respectively. Capitalized borrowing costs as of December 31, 2001 and 2000 amounted to ₱676 and ₱716, respectively.

Undistributed earnings of investees (including accretion of earnings on ABS-CBN and Sky Vision Notes) included in the Parent Company's retained earnings, amounting to ₱1,578 as of December 31, 2001 and ₱1,287 as of December 31, 2000, are not currently available for dividend declaration until these are distributed by the investees.

<u>FPHC</u>

Condensed consolidated financial information is as follows:

	2001	2000
Accounts receivable - net	**₱4,879**	₱4,054
Property, plant and equipment - net	**47,780**	39,440
Investments and deposits - net	**29,185**	28,101
Total assets	**109,436**	95,912
Accounts payable and other current liabilities	**13,064**	8,736
Long-term debt, including current portion	**53,791**	49,366
Stockholders' equity	**23,771**	19,725
Net income	**3,507**	1,090

<u>Notes</u>

The details and movements of investment in Notes follow:

	2001	2000
ABS-CBN	**₱7,682**	₱7,340
Sky Vision	**390**	405
	₱8,072	₱7,745

	2001	2000
Acquisition costs	**₱7,922**	₱8,211
Deferred income	**3,633**	3,748
Net	**4,289**	4,463
Accumulated accretion on earnings and interest:		
Balance at beginning of year	**3,324**	2,485
Accretion of earnings on Notes	**688**	1,419
Interest on Notes	**134**	131
Accumulated accretion on sold Notes	**(155)**	(436)
Interest received	**(266)**	(275)
Balance at end of year	**3,725**	3,324
Share in revaluation increment of affiliates' properties	**1**	1
Equity adjustment from translation	**57**	(43)
	₱8,072	₱7,745

On September 29, 1999, ABS-CBN Holdings Corporation (50%-owned by Lopez), offered 132,000,000 PDRs relating to 132,000,000 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 underlying 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 Notes held by the Parent Company were amended to allow for conversion into shares or into PDRs. As of December 31, 2001 and 2000, the Parent Company holds 188,900 and 4,099,400 PDRs, respectively. The remaining PDRs are shown as part of the carrying value of "Notes" under the "Investments and advances" account in the historical consolidated balance sheets. The excess of PDR selling price over the cost of the PDRs, net of related expenses, is shown as part of "Gain on sale of investments" account in the consolidated statements of income.

Sky Vision

As of December 31, 2001, the Parent Company has investments in Notes, advances to and options to purchase shares in Sky Vision (see Note 13) totaling ₱3,146.

On July 18, 2001, the Parent Company, along with Lopez and ABS-CBN (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 Sky Vision and Unilink Communications Corporation (Unilink) under a holding company to be established for the purpose. Beyond Cable Holdings, Inc. (Beyond) was incorporated on December 7, 2001 as the holding company. Sky Vision 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 "SkyCable" and "SunCable." Unilink owns The Philippine Home Cable Holdings, Inc. (Home), which operates cable television systems 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 Sky Vision and Unilink into Beyond. The transfers are pending approval by the creditors of Sky Vision and Home. 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 on January 16, 2002, to extend this period up to December 31, 2002.

The MCA also provides for the Benpres Group to sell 33% of Beyond to a strategic and/or financial investor. The sale of shares in Beyond is part of the balance sheet management plan discussed in Note 1.

On August 15, 1997, Sky Vision 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 Sky Vision 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 March 22, 2002, this valuation process has not been concluded.

On December 6, 2001, Sky Vision and its certain subsidiaries declared a suspension of payment of principal and interest due on its loans and thereafter proposed to the creditors a comprehensive restructuring plan. The restructuring plan has already been submitted to the creditors for consideration and approval.

The ability of Sky Vision and its subsidiaries to continue operating in the normal course depends on the acceptance by the creditors of the restructuring plan. Management is of the opinion that an agreement will soon be reached on the restructuring proposal. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this restructuring plan.

<u>FPHC Convertible Notes</u>

In August 1998, the Parent Company acquired US$40 of FPHC's convertible notes (FPHC's Notes) consisting of Tranche I of US$24 and Tranche II of US$16. FPHC's Notes have a maturity of 5.5 years from issue date, redeemable at principal amount plus accrued and unpaid coupon. FPHC's Notes are also convertible into FPHC's common shares underlying the FPHC's Notes at anytime after 1998 and up to the close of business in 2004. In November 1998, the Parent Company converted Tranche II into 52,024,767 shares of stock of FPHC.

The terms and conditions of Tranche I follows:

Conversion price	:	15% above the 30-day average market price prior to August 4, 1998 of FPHC's common shares underlying FPHC's Notes
Coupon	:	2.5% payable annually in arrears
Put	:	Exercisable by the Parent Company on August 4, 2002
Yield to put	:	At a premium representing a yield of 250 points over the average of 3 and 5 year US Treasury fixed at pricing
Call	:	Noncallable until August 5, 2002, thereafter at anytime at par

11. **Property and Equipment at Cost**

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Land	**₱24**	₱24	**₱24**	₱24
Leasehold improvements	**52**	20	**52**	20
Buildings and improvements	**155**	16	**7,186**	2,566
Water meter, instrumentation, tools and other equipment	**1,147**	886	**1,147**	886
Television, radio, movie and auxiliary equipment	**–**	–	**4,732**	3,685
Other equipment	**435**	327	**2,566**	2,127
	1,813	1,273	**15,707**	9,308
Less accumulated depreciation and amortization	**459**	279	**4,492**	3,503
	1,354	994	**11,215**	5,805
Rehabilitation work in progress	**2,261**	1,243	**2,261**	1,243
Construction in progress	**6**	–	**1,230**	4,478
Equipment in transit	**–**	–	**287**	602
	2,267	1,243	**3,778**	6,323
	₱3,621	₱2,237	**₱14,993**	₱12,128

In the pro forma consolidated financial statements, the construction in progress account mainly represents accumulated cost incurred by ABS-CBN in the construction of its multi-storey building and broadcasting equipment for installation amounting to ₱4,008, including capitalized interest of ₱1,061 as of December 31, 2000. The multi-storey building is a technologically-advanced, world class complex where the corporate offices and studios of ABS-CBN and its subsidiaries and affiliates engaged in entertainment-related businesses, will be situated. The multi-storey building was substantially completed in June 2001. As of December 31, 2001, total cost of the building reclassed to proper “Property and Equipment” account amounted to ₱4,460. The remaining balance amounting to ₱1,224 represents the uncompleted portion of the multi-storey building.

In the pro forma consolidated financial statements, property and equipment includes borrowing costs incurred in connection with the construction of the multi-storey building. Borrowing costs capitalized for the years ended December 31, 2001 and 2000 amounted to ₱132 and ₱310, respectively.

12. **Land and Improvements at Revalued Amounts**

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Cost	**₱–**	₱–	**₱313**	₱198
Appraisal increase	**–**	–	**334**	334
			647	532
Less accumulated depreciation	**–**	–	**13**	13
	₱–	₱–	**₱634**	₱519

13. **Other Noncurrent Assets**

	Historical		Pro Forma	
	2001	2000	**2001**	2000
		(As Restated)		*(As Restated)*
Concession assets - net (see Notes 4 and 25)	**₱6,532**	₱5,605	**₱6,532**	₱5,605
Deferred FCDA and STM (net of recoveries through billings of ₱216) (see Notes 4 and 28)	**4,840**	3,685	**4,840**	3,685
Development costs (see Notes 4 and 28)	**2,749**	1,654	**2,749**	1,654
Deposits - net of allowance for decline in value of ₱2,217 in 2001 (see Notes 1 and 18)	**2,627**	4,844	**2,627**	4,844
Deferred charges	**709**	548	**709**	548
Notes receivable (see Note 3)	**370**	–	**370**	–
Project development costs and preoperating expenses - net			**1,013**	788
Tax credits	**–**	–	**1,663**	1,171
Production and distribution business (see Note 18)	**–**	–	**604**	671
Noncurrent marketable equity securities - at cost	**–**	–	**–**	242
Miscellaneous deposits and others (see Note 22)	**128**	81	**464**	399
	₱17,955	₱16,417	**₱21,571**	₱19,607

Concession assets represent commencement and concession fees paid by Maynilad Water in accordance with the Concession Agreement (see Note 4). The aggregate concession fee (exclusive of the contributions to the budgets of MWSS and the MWSS Regulatory Office) is equal to the sum of MWSS loans defined in the Concession Agreement.

The estimated future payments under the aforementioned provisions are as follows:

	In Original Currency *(In Millions)*		
Year	Foreign Currency Loans (Translated to US$)	Peso Loans/ Project Local Support	Total Equivalent Peso*
2002	$53.72	₱87.61	₱2,864.34
2003	49.71	66.09	2,635.41
2004	43.88	24.05	2,292.20
2005	42.12	22.05	2,199.10
2006-2021	337.56	71.34	17,520.07
	$526.99	₱271.14	₱27,511.12

**Peso equivalent translated using ₱51.69:US$1*

Development costs mainly represents Maynilad Water's accumulated capitalized excess of expenses over revenues (₱1,481 as of December 31, 2001 and ₱449 as of December 31, 2000), and capitalized borrowing costs (₱609 as of December 31, 2001 and ₱550 as of December 31, 2000).

Deposits are payments for options to purchase shares of stock of BayanTel (₱2,217 as of December 31, 2001 and 2000) and Sky Vision (₱2,627 as of December 31, 2001 and 2000) at a pre-agreed price. In view of the incorporation of Beyond (see Note 10), the options to purchase shares of stock of Sky Vision was amended to change the underlying shares from Sky Vision to Beyond. The options will expire when the underlying shares of the affiliates are listed in the PSE in connection with its initial public offering.

Deferred charges mainly represents Maynilad Water's costs incurred related to loan negotiations of ₱469 in 2001 and ₱307 in 2000, and development of accounting and information systems of ₱145 in 2001 and ₱85 in 200.

Project development costs in the pro forma consolidated financial statements mainly represent costs incurred related to the business development of direct-to-home operations in the Middle East amounting to ₱444 in 2001 (₱145 in 2000) and cable and telecommunication operations in North America amounting to ₱133 in 2001 (₱150 in 2000). Amortization of project development costs related to North America operations is shown as part of general and administrative expenses. ABS-CBN expects to commence commercial operations in the Middle East by the second half of 2002.

Tax credits represents claims of ABS-CBN from the government arising from airing of government commercials and advertisement. Pursuant to Presidential Decree No. 1362, this will be collected in the form of tax credit certificates which ABS-CBN can use in paying for its import duties and taxes on its broadcasting equipment.

Production and distribution business represents the acquisition cost of the following cable channels: Lifestyle Channel, Pinoy Blockbuster Channel and Video-ok Channel. One of ABS-CBN's subsidiaries entered into a cable lease agreement (Agreement) with Central, an affiliate engaged in cable operations, for the airing of these channels to the franchise areas of Central. 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, the ABS-CBN subsidiary will receive fees from Central computed based on agreed rates and on the number of subscribers of Central. As the owner of the said cable channels, the ABS-CBN subsidiary develops and produces its own shows and acquire program rights from various foreign suppliers.

Noncurrent marketable equity securities in 2000 represents 5,255,000 shares of ABS-CBN acquired by ABS-CBN solely for its employees stock option plan (ESOP). As of December 31, 2000, the cost of these securities is lower than its market value by ₱18. In 2001, all shares under the ESOP were exercised.

14. Bank Loans

	Historical		**Pro Forma**	
	2001	2000	**2001**	2000
Peso loans	**₱1,941**	₱1,900	**₱5,448**	₱3,712
Dollar loans	**6,487**	5,923	**6,845**	6,412
	₱8,428	₱7,823	**₱12,293**	₱10,124

In the historical consolidated financial statements, peso and dollar loans mainly represent loans of Maynilad Water, with annual interest rates ranging from 15.8% to 17.3% in 2001 and from 11.1% to 18.9% in 2000 for peso-denominated loans and from 4.4% to 4.7% in 2001 and 6.8% to 8.5% in 2000 for dollar-denominated loans. Maynilad Water obtained these bank loans as a bridge financing while negotiating for a long-term loan of US$350 (see Note 4).

On February 28, 2002, Maynilad Water, together with the Parent Company and the other shareholder of Maynilad Water as guarantors, entered into a third amendment agreement (Amendment Agreement) relating to the US$100 bridge loan which amended, among others, the Maturity Date of the bridge loan subject to certain conditions specified in the Amendment Agreement. The banks, however, still 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 2 business days prior written notice as defined in the Amendment Agreement.

In the pro forma consolidated financial statements, average annual interest rates of ABS-CBN loans are 15.15% in 2001 and 14.0% in 2000 for peso loans and 5.4% in 2001 and 5.3% in 2000 for dollar loans.

15. Accounts Payable and Other Current Liabilities

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Trade	**₱3,538**	₱530	**₱4,337**	₱1,234
Accrued production cost, taxes and other expenses	**916**	931	**2,057**	2,256
Income tax payable	**7**	1	**435**	436
Accrued interest and other current liabilities (see Note 23)	**976**	283	**1,266**	361
	₱5,437	₱1,745	**₱8,095**	₱4,287

16. Long-term Debt

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Parent Company:				
7.875% Notes	**₱7,754**	₱7,498	**₱7,754**	₱7,498
LTCPs	**2,000**	3,000	**2,000**	3,000
4.2% Perpetual Convertible Bonds	**12**	12	**12**	12
ABS-CBN:				
Syndicated loans payable to a local bank	**–**	–	**2,000**	2,320
Payable to a local bank	**–**	–	**1,000**	1,000
	9,766	10,510	**12,766**	13,830
Less current portion of long-term debt	**7,754**	1,000	**8,314**	1,320
	₱2,012	₱9,510	**₱4,452**	₱12,510

Parent Company

i. On June 17, 1997, the Parent Company issued 7.875% Notes of US$150 listed in the Luxembourg Stock Exchange. The 7.875% Notes will mature on December 19, 2002 and 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.

ii. On August 9, 1996, the Securities and Exchange Commission (SEC) approved the issuance of ₱3,000 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 affiliates.

The LTCPs were offered and issued in two series, "A-1" for ₱1,000 and "A-2" for ₱2,000. 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.

iii. The 4.2% Perpetual Convertible Bonds ("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 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.

Certain number of shares, equivalent to 3,421,410 shares, are reserved to cover any conversion of the Bonds into common shares and stock dividends declared during the year. As of December 31, 2001, 29,449 units have been converted into 324,337,262 common shares.

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, 2001, ₱12 of the Bonds are outstanding.

Maturities of long-term debt of the Parent Company are scheduled as follows:

	In Original Currency		Total Peso
Maturities	US Dollar	Philippine Peso	Equivalent
2002	150	–	7,754
2003	–	2,000	2,000
	150	2,000	9,754

For the year ended December 31, 2001, the Parent Company failed to comply with the current ratio and debt to equity ratio required by its creditors. On January 21, 2002, the Parent Company has filed with the creditors a waiver for compliance with the current ratio requirement. The waiver from the creditors is still pending as of March 22, 2002. The Parent Company is in the process of filing for a waiver for compliance with the debt to equity ratio.

<u>ABS-CBN</u>

i. Syndicated loans payable to local banks consist of long-term facilities under JEXIM 3 and 4 program of a local development bank, amounting to ₱800 and ₱2,000, respectively. The loans were used to finance the ongoing construction of the multi-storey building and acquisition of equipment. The ₱800 loan is payable in 5 quarterly payments commencing on March 17, 2000 with interest payable quarterly in arrears at 13.3% per annum. The balance of the ₱800 loan was fully paid in 2001. The ₱2,000 loan is payable in 15 unequal quarterly payments commencing in May 2002 with interest payable quarterly in arrears at 10.93% per annum.

ii. ABS-CBN has a Loan Agreement with a local bank for US$38, 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 (¾%) 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 the pro forma consolidated balance sheets is based on its original spot exchange rate of ₱26.38.

Under the terms of the above loans, ABS-CBN shall use the proceeds of the loans exclusively for the purpose of financing the construction of its multi-storey building and acquisition of equipment. The loan covenant requires ABS-CBN to, among others, maintain certain financial ratios; not allow any of its assets to be subject to any lien, except to the extent allowed in the loan; and contract another loan with a maturity of more than one year, if such obligation will result in a violation of the prescribed financial ratios

Maturities of long-term debt of ABS-CBN are scheduled as follows:

2002	₱560
2003	80
2004	1,260
2005	1,100
	₱3,000

As of December 31, 2001, ABS-CBN is in breach of its current ratio requirement. ABS-CBN is in the process of requesting for a waiver on the breach and is currently working on raising a new long-term financing to address the breach.

17. Other Noncurrent Liabilities

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Due to affiliates (see Note 18)	**₱966**	₱371	**₱1,011**	₱786
Customers' guaranty, deposits and others	**163**	147	**163**	147
Deferred tax liabilities (see Note 22)	**–**	–	**502**	482
	₱1,129	₱518	**₱1,676**	₱1,415

18. Related Party Transactions

Significant transactions with related parties follow:

a. Interest and noninterest-bearing cash advances to/from affiliates and intercompany billings for management and developmental fees and guarantee fees.

b. Deposits for options to purchase shares of stock at a pre-agreed price from Lopez (see Notes 1 and 13).

c. On December 29, 2000, ABS-CBN and one of its subsidiaries entered into a Sale Agreement with Central for the acquisition of the following assets:

   - Production and distribution business and the related program rights and property and equipment of three new cable channels, namely, Lifestyle Channel, Pinoy Blockbuster Channel and Video-ok Channel for ₱671; and

   - Investment in shares of stock of Shopping Network and Sarimanok News Network, Inc. for ₱28.

19. General and Administrative

	Historical			Pro Forma	
	2001	2000	1999	**2001**	2000
Personnel expenses (see Note 23)	**₱155**	₱30	₱17	**₱1,039**	₱912
Depreciation and amortization	**147**	110	146	**669**	371
Contracted services	**47**	25	19	**284**	277
Facilities related expenses	**–**	–	–	**299**	171
Provision for doubtful accounts	**–**	–	–	**145**	70
Other expenses	**181**	105	88	**968**	897
	₱530	₱270	₱270	**₱3,404**	₱2,698

20. **Costs of Sales and Services**

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Facilities related expenses	**₱–**	₱–	**₱369**	₱399
Inventory cost	**–**	–	**331**	244
Personnel expenses	**–**	–	**110**	93
Depreciation and amortization	**–**	–	**75**	85
Other expenses	**4**	–	**225**	65
	₱4	₱–	**₱1,110**	₱886

21. **Production Costs**

	Pro Forma	
	2001	2000
Personnel expenses and talent fees	**₱1,584**	₱1,121
Facilities related expenses	**588**	454
Amortization of program rights	**506**	361
Depreciation	**486**	333
Other program expenses	**442**	496
	₱3,606	₱2,765

22. **Income Tax**

The significant components of deferred tax assets and liabilities as of December 31, 2001 and 2000 are as follows:

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Deferred income tax - current (shown as part of "Other current assets" account):				
Deferred tax assets -				
Unrealized foreign exchange loss and allowance for doubtful accounts (net of valuation allowance of ₱30 in 2001)	**₱–**	₱–	**₱54**	₱41
Deferred income tax - noncurrent -				
Deferred tax assets (shown as part of "Other noncurrent assets" account):				
Unrealized foreign exchange loss	**₱1,156**	₱1,087	**₱1,156**	₱1,087
NOLCO	**653**	384	**653**	384
Deferred credits	**445**	351	**445**	351
Carryforward benefit of MCIT	**28**	29	**28**	29
Unamortized past service cost and unfunded pension cost	**5**	4	**5**	4
	2,287	1,855	**2,287**	1,855
Less valuation allowance	**2,287**	1,855	**2,287**	1,855
	₱–	₱–	**₱–**	₱–

	Historical		Pro Forma	
	2001	2000	**2001**	2000
Deferred tax liabilities (shown as part of "Other noncurrent liabilities" account) - Capitalized interest, duties and taxes deducted in advance (net of accumulated depreciation) and unissued tax credits	**₱–**	₱–	**₱502**	₱482

The current provision for income tax in 2001 and 2000 includes the MCIT of the Parent Company.

NOLCO amounting to ₱2,042 can be claimed as deductions from normal taxable income as follows:

Expiry Dates	Amount
December 31, 2002	₱182
December 31, 2003	1,019
December 31, 2004	841
	₱2,042

MCIT amounting to ₱28 can be claimed as deductions from normal tax due as follows:

Expiry Dates	Amount
December 31, 2002	₱20
December 31, 2003	1
December 31, 2004	7
	₱28

The reconciliation between the statutory and the effective income tax rates follows:

	Historical			Pro Forma	
	2001	2000	1999	**2001**	2000
Applicable statutory income tax rate	**(32%)**	(32%)	33%	**(32%)**	32%
Income tax effect of permanent differences:					
Accretion of earnings and interest on Notes	**(2)**	(129)	(30)	**–**	–
Gain on sale of investments	**(2)**	(188)	(64)	**(2)**	(47)
Equity in net losses of investees	**1**	60	43	**1**	13
Provision for estimated liabilities from guarantee and commitments	**19**	–	–	**23**	–
Provision for decline in value of investments and advances and other noncurrent assets	**11**	122	–	**13**	30
Change in valuation allowance and others	**5**	167	19	**(13)**	47
Effective income tax rates	**– %**	– %	1%	**(10%)**	75%

23. Pension Plan

The Parent Company and ABS-CBN have a funded, noncontributory and actuarially computed pension plans covering substantially all of its employees. The benefits are based on years of service and compensation during the last year of employment. Total pension expense for 2001 and 2000 amounted to ₱4 and ₱10, respectively, in the historical consolidated financial statements and ₱23 and ₱29, respectively, in the pro forma consolidated financial statements.

As of August 1, 2000, the latest actuarial valuation report of the Parent Company, the actuarial present value of pension benefits amounted to ₱54 million. The principal actuarial assumptions used to determine pension benefits were a return on plan assets of 12% and salary increases of 10%.

As of February 1, 1998, the latest actuarial valuation of ABS-CBN, the actuarial present value of pension benefits amounted to ₱82. The fair value of the plan assets amounted to ₱42. The unfunded present value of pension benefits amounted to ₱40. The principal actuarial assumptions used to determine pension benefits were a discount rate of 12%, salary increases of 10% and a return on plan assets of 12%.

Actuarial valuations are made at least every three years. 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.

24. Earnings (Loss) Per Share

Basic earnings (loss) per share are calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net income 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.

Net Income (Loss)

	2001	2000 *(As Restated)*	1999 *(As Restated)*
(a) Net income (loss)	**(₱10,251)**	(₱354)	₱2,015
Interest on convertible bonds and amortization of bond issue cost	**1**	1	1
(b) Net income (loss) - diluted	**(₱10,250)**	(₱353)	₱2,016

Shares

	2001	2000	1999
(c) Weighted average number of common shares - basic	**4,581,544,408**	4,581,544,408	4,581,456,307
Conversion of bonds (see Note 16)	**3,421,410**	3,421,410	3,421,410
(d) Adjusted weighted average common shares - diluted	**4,584,965,818**	4,584,965,818	4,584,877,717

Per Share Amounts

	2001	2000	1999
		(As Restated)	*(As Restated)*
Basic (a/c)	**(₱2.2375)**	(₱0.0773)	₱0.4398
Diluted (b/d)	**–**	–	0.4397

In 2001 and 2000, the effect of the conversion of the Perpetual Convertible Bonds is anti-dilutive.

25. **Commitments and Contingencies**

a. Significant contracts entered into by MNTC for the financing and construction of the Project are as follows:

- On July 6, 2001, an Operation and Maintenance Agreement (O&M agreement) was entered into by and between MNTC, as employer and the MNTC O&M Co., as the operator. The O&M agreement contains the terms and conditions for the operation and maintenance of the MNTC O&M Co. of Phase I and sets forth the scope of its services. The MNTC O&M Co. will be assisted by Transroute Philippines, Inc. as the service provider in accordance with the Technical Assistance Agreement (TAA). Under the O&M agreement, MNTC shall pay the MNTC O&M Co. a fixed annual amount, currently set at ₱637 for the NLE and ₱41 for Segment 7.

- On July 6, 2001, a Construction Contract (Contract) was executed by and between MNTC and Leighton Contractors (Asia) Limited (Leighton) in relation to the construction of Segments 1, 2 and 3 of Phase I of the NLE. The Contract is a firm fixed price contract and is not subject to indexation or exchange rate fluctuations except where expressly stated in the Contract or otherwise agreed with Leighton. The Peso element of the Contract price is currently ₱5,024 and the US Dollar element is US$37. Leighton has entered into an FOE Supply Sub-contract with Egis Projects and an FOE Installation Sub-contract with Epsys, Inc. amounting to US$31 and US$6, respectively. The FOE Supply Sub-contract is for the design, manufacture, testing and delivery of the imported equipment while the FOE installation Sub-contract is for the installation, testing and commissioning of the imported equipment.

- On July 7, 2001, MNTC has entered into the following major agreements in connection with the financing facilities:

  - Common Terms Agreement (CTA) with the lenders, the security trustee, the co-security trustee and inter-creditor agent. The CTA specifies the mechanics on the funding under the term facilities, payment and prepayments, as well as the conditions precedent to drawdowns set forth by the secured lenders. The CTA also contains covenants concerning 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 the debt service coverage ratio.

- 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 to the trustees, on behalf of the secured lenders, the security interest in the 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 Parent 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 the MNTC in order to meet the required debt-to-base equity ratio prior to the proposed drawdown date.

- Sponsor Support Agreement (SSA) with 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. 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.

b. As of December 31, 2001, 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 an accreted value of US$167; (ii) 60% of bank loans of Maynilad Water equivalent to $97; (iii) 60% of the standby letter of credit of Maynilad Water equivalent to US$72; and (iv) FPIDC and MNTC loans and obligations to contractors of about US$25.

c. 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 Parent 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 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 value of the option shares will be determined only when the shareholders exercise their option in October 2002. It is the position of the Parent Company, however, that this amount should not be more than US$52 (inclusive of subsequent relevant equity calls plus interest). The option holders have indicated that the value of the option shares is higher.

d. On July 26, 1995, a Joint Venture Agreement was executed and was duly approved by the President of the Republic of the Philippines setting forth the undertaking of FPIDC and Philippine National Construction Corporation (PNCC) to jointly implement the immediate construction of SBMA-Tipo Road segment, which forms part of Phase III of the construction and rehabilitation of the Manila-Subic Expressways.

   On March 19, 1998, a Notice of Acceptance (NOA) was issued to PNCC and FPIDC in relation to the Manila North Tollway Project by the Toll Regulatory Board. On June 15, 1998, the Supplemental Toll Operating Agreement (STOA) was signed by all parties.

   On June 8, 2001, the SBMA endorsed and confirmed the incorporation of the Segment 7 to the North Luzon Tollways Project (NLTP), a project road under the STOA. The same STOA granted concession to MNTC to design, construct, expand, operate and modernize the existing NLE. With the incorporation of Segment 7 into NLTP, MNTC and FPIDC executed a Deed of Assignment and Conveyance on July 6, 2001, whereby, FPIDC assigns, conveys and transfers in favor of MNTC all its rights, interest and privileges over Segment 7. To continue the operations and maintenance of Segment 7 under the terms and conditions of the STOA, MNTC and FPIDC entered into an Operations and Maintenance Agreement (S7 O&M) whereby, MNTC appoints FPIDC as the Operator of the toll road. The S7 O&M will become effective subject to certain conditions precedent, among which is the approval of the SEC of the equity conversion of FPIDC.

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

   i. Payment of concession fees (see Note 4)

   ii. Posting of performance bond

      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, 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. As of December 31, 2001, the Parent Company guaranteed 60% of the US$120 standby LC facility. 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 Bond (In Millions of US$)
First (August 1, 1997 - December 31, 2002)	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 10 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 TB 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.

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

iv. Payment of mandatory severance pay to all employees who were not retained by Maynilad Water after the 6-month probationary period following the Commencement Date and to all employees who will be discharged during a period of one year beginning at the end of the 6-month probationary period due to any reduction in personnel for authorized causes provided under the Labor Code. Total mandatory severance paid amounted to ₱80 and is shown as part of "Other noncurrent assets" account in the consolidated balance sheets.

v. 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.

vi. 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).

vii. 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.

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

ix. 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 the MWSS and Maynilad Water 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:

i. 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.

ii. 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.

f. In relation to the Concession Agreement, Maynilad Water entered into the following contracts with the East Concessionaire:

i. Interconnection Agreement that provides for, among others, the cost and the volume of water to be transferred between zones, and

ii. Common Purpose Facilities Arrangement that provides for the operation, maintenance, renewal, and as appropriate, decommissioning of Common Purpose Facilities, and performance of other functions pursuant to and in accordance with the provisions of the Concession Agreement and performance of other such functions relating to the Concession (and the Concession of the East Concessionaire) as Maynilad Water and the East Concessionaire may choose to delegate to the Joint Venture, subject to the approval of MWSS (see Note 26).

g. FPHC's investee, MERALCO, is contingently liable to refund ₱11,300 to its customers. On February 16, 1998, the Energy Regulatory Board (ERB, now Energy Regulatory Commission), in ERB Case No. 93-118, rendered a decision ordering MERALCO to refund to its customers ₱0.167 per kilowatt hour starting with MERALCO's billing cycles beginning February 1994 until its billing cycles beginning February 1998, or correspondingly credit the same, in favor of the customers against their future consumption. MERALCO filed with the Court of Appeals (CA) a petition for review, with application for a Temporary Restraining Order (TRO) and/or writ of Preliminary Injunction. On March 17, 1998, a TRO has been issued enjoining the ERB from implementing its order. On May 28, 1998, a Preliminary Injunction was issued and, on February 26, 1999, the CA rendered a decision setting aside the aforementioned ERB decision, insofar as it directed MERALCO to reduce its rates and effect a refund to its customers. On March 18, 1999, the ERB filed a motion for reconsideration with the CA. On December 23, 1999, the CA denied the motion filed by the ERB. On February 21, 2000, MERALCO received a copy of the petition filed by the Republic of the Philippines represented by the ERB questioning the aforesaid decision of the CA. A similar petition filed by the

Lawyers against Monopoly and Poverty (LAMP) was received by MERALCO on March 22, 2000. Comments on the said petitions were filed by MERALCO on May 24, 2000 and October 30, 2000, respectively. On January 30, 2001, MERALCO received Replies to Comment from both petitioners. As of March 22, 2002, the above mentioned case has been submitted for the decision of the Supreme Court.

h. 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 Provisional Authority (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 Supreme Court 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 Supreme Court ruled in favor of BayanTel and the NTC, reinstating the orders of the NTC. A motion for reconsideration was filed by the other party but the Supreme Court has not ordered BayanTel nor the NTC to file their comments. In the meantime, BayanTel had accumulated costs of ₱84, included in the deferred charges and preoperating expenses under "Other noncurrent assets" account in the consolidated balance sheets, related to its application for a CMTS license and pre-operating activities.

i. Maynilad Water and ABS-CBN have contingent liabilities with respect to claims and lawsuits. Management, after consultations with outside legal counsels, is of the opinion that an adverse judgment in any case will not materially affect its financial position and results of operations.

   Maynilad Water has outstanding claims from several contractors related to capital expenditures. The final amount of these contractors' claims is still under negotiation.

j. MNTC and FPIDC were made respondents in a Supreme Court case, where, petitioner therein sought for the reconsideration of the Regional Trial Court (RTC)'s Order dismissing the complaint on the ground of lack of cause of action. Specifically, petitioner alleges that considering that the transfer of the legislative franchise to run the Expressways was null and void, the approval by the President of the Republic of the Philippines of the assignment of PNCC's usufructuary rights, interests and privileges under PD Nos. 1113 and 1894 to the extent of the portion pertaining to the NLE to MNTC should be annulled.

   On January 3, 2002, the Supreme Court rendered a Resolution denying petitioner's petition on the grounds that: 1) the petition was filed beyond the reglementary period as fixed by the Rules of Court; and 2) petitioner failed to sufficiently show that the RTC committed reversible error in the challenged decision and resolution as to warrant the exercise by the Supreme Court of its discretionary appellate jurisdiction in said case.

   On February 12, 2002, petitioner filed a Motion for Reconsideration of the dismissal by the Supreme Court.

   In a Resolution dated March 11, 2002, the Supreme Court denied with finality petitioner's Motion for Reconsideration on the ground that petitioner failed to raise any substantial argument that would warrant a modification by the Supreme Court of its earlier Resolution dated January 3, 2002.

   Thus, this case has now been finally settled in favour of MNTC and FPIDC.

26. Assets Held in Trust

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.

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 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 with a sound value of ₱13,800.

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, 2001, the lease has been renewed for another year.

27. Segment Information

Segment information is prepared on the following bases:

Historical

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

Pro Forma

Business segments: In addition to the above business segments, broadcasting and entertainment. Other business activities of ABS-CBN include cable satellite, consumer products and services, customer contact services and information technology.

Geographical segments: ABS-CBN's activities outside the Philippines represent approximately 14% of its total revenues.

HISTORICAL

	Investment Holdings			Water Distribution			Services	Eliminations			Consolidated		
	2001	2000	1999	**2001**	2000	1999	**2001**	**2001**	2000	1999	**2001**	2000	1999
Revenues	**₱1,342**	₱3,620	₱5,946	**₱–**	₱–	₱–	**₱153**	**₱–**	₱–	₱–	**₱1,495**	₱3,620	₱5,946
Results													
Segment result	**(₱8,932)**	₱2,000	₱5,676	**₱–**	₱–	₱–	**(₱95)**	**₱–**	₱–	₱–	**(₱9,027)**	₱2,000	₱5,676
Equity in net losses											**(184)**	(663)	(2,653)
Interest expense and other financing charges - net											**(893)**	(736)	(759)
Miscellaneous											**(149)**	(954)	(229)
Minority interest											**9**	–	–
Income tax											**(7)**	(1)	(20)
Net income											**(₱10,251)**	(₱354)	₱2,015
Other Information													
Segment assets	**₱15,000**	₱18,807	₱22,409	**₱19,430**	₱14,900	₱9,150	**₱344**	**₱7**	₱26	(₱387)	**₱34,781**	₱33,943	₱31,172
Investment in equity method	**17,356**	18,114	15,555	**–**	–	–	**64**	**(3,790)**	(3,672)	(2,127)	**13,630**	14,442	13,428
Consolidated total assets	**₱32,356**	₱36,921	₱37,964	**₱19,430**	₱	₱9,150	**₱408**	**(₱3,783)**	(₱3,646)	(₱2,514)	**₱48,411**	₱48,385	₱44,600
Segment liabilities	**₱17,287**	₱11,308	₱11,696	**₱14,125**	₱9,603	₱4,458	**₱307**	**₱1,623**	₱1,861	₱2,178	**₱33,342**	₱22,772	₱18,332
Depreciation and amortization	**121**	110	146	**–**	–	–	**26**	**–**	–	–	**147**	110	146
Noncash expenses other than depreciation and amortization	**10,172**	2,013	2,653	**–**	–	–	**–**	**–**	–	–	**10,172**	2,013	2,653

PRO FORMA

	Investment Holdings		Water Distribution		Services	Broadcasting		Other Business of ABS-CBN		Eliminations		Consolidated	
	2001	2000	**2001**	2000	**2001**	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Revenues	**₱1,342**	₱3,620	**₱–**	₱–	**₱153**	**₱8,273**	₱7,584	**₱2,240**	₱1,735	**(₱822)**	(₱1,550)	**₱11,186**	₱11,389
Results													
Segment result	**(₱8,932)**	₱2,000	**₱–**	₱–	**(₱95)**	**₱2,992**	₱3,201	**(₱112)**	₱39	**(₱775)**	(₱1,646)	**(₱6,922)**	₱3,594
Equity in net losses												**(240)**	(574)
Interest expense and other financing charges - net												**(1,522)**	(780)
Miscellaneous												**(70)**	(821)
Minority interest												**(607)**	(705)
Income tax												**(890)**	(1,068)
Net income												**(₱10,251)**	(₱354)
Other Information													
Segment assets	**₱15,000**	₱18,807	**₱19,430**	₱14,900	**₱344**	**₱21,126**	₱20,081	**₱2,467**	₱2,123	**(₱8,916)**	(₱9,148)	**₱49,451**	₱46,763
investment in equity method	**17,356**	18,114	**–**	–	**64**	**2,320**	9983	**–**	–	**(5,135)**	(3,629)	**14,605**	15,444
Consolidated total assets	**₱32,356**	₱36,921	**₱19,430**	₱14,900	**₱408**	**₱23,446**	₱30,064	**₱2,467**	₱2,123	**(₱14,051)**	(₱12,777)	**₱64,056**	₱62,207
Segment liabilities	**₱17,287**	₱11,308	**₱14,125**	₱9,603	**₱307**	**₱9,729**	₱9,138	**₱1,504**	₱1,981	**₱6,035**	₱4,564	**₱48,987**	₱36,594
Depreciation and amortization	**121**	110	**–**	–	**26**	**1,393**	953	**196**	87	**–**	–	**1,736**	1,150
Noncash expenses other than depreciation and amortization	**10,172**	2,013	**–**	–	**–**	**73**	1	**72**	69	**(89)**	(63)	**10,228**	2,020

28. **Other Matters**

a. Capitalized excess of expenses over revenues of Maynilad Water consists of:

	2001	2000
Revenues		
Water services	**₱2,325**	₱2,199
Sewer services	**447**	428
FCDA (see Note 13)	**216**	–
Miscellaneous	**92**	51
	3,080	2,678
Costs and expenses:		
Salaries, wages and benefits	**908**	889
Interest	**799**	3
Contracted services	**494**	460
Utilities	**246**	177
Amortization of FCDA (see Note 13)	**216**	–
Guarantee fees	**131**	120
Depreciation and amortization	**150**	149
Cost of water from Manila Water	**142**	213
Maintenance and operating expenditures of MWSS	**130**	124
Materials and supplies	**128**	136
Performance bond premium	**118**	99
Miscellaneous	**650**	436
	4,112	2,806
Excess of expenses over revenues	**1,032**	128
Excess of expenses over revenues at beginning of year	**449**	321
Excess of expenses over revenues at end of year	**₱1,481**	₱449

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

- A fixed currency rate adjustment payment of one peso per cubic meter of water consumed above the standard rates.

- Annual standard rates adjustment to compensate for increases in the CPI subject to rates adjustment limit.

- 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 rates 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. Rebasing Adjustment (see Note 25)

d. 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 (PTV-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 Network, Inc., filed a civil case on January 14, 1988 against Ferdinand 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 totalling ₱305 plus legal interest compounded quarterly and exemplary damages of ₱100.

   ABS-CBN's Board of Directors 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.

   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 (net of government's counterclaim against ABS-CBN of ₱68) 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.

e. 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. As of March 22, 2002, Maynilad Water has a pending application with the BOI for another deferment of the reckoning date of the ITH from August 2001 to January 2003.

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

	Historical			**Pro Forma**	
	2001	2000	1999	**2001**	2000
		(As Restated)	*(As Restated)*		*(As Restated)*
Noncash investing and financing activities:					
Suspended concession fee payments to MWSS	**₱1,811**	₱–	₱–	**₱1,811**	₱–
Sale of FPIDC shares in exchange for Notes receivable	**370**	–	–	**370**	–
Conversion of 4.2% Perpetual Convertible Bonds	**–**	**–**	4	**–**	–
Sale of ESOP on account	**–**	–	–	**83**	–
Acquisition of Production and Distribution Business - net of cash payment of ₱190	**–**	–	–	**–**	481
Acquisition of film rights offset against due from an affiliated company	**–**	–	–	**–**	123