

MR. ELPIDIO L. IBAÑEZ
President and Chief Operating Officer
First Philippine Holdings Corporation
Annual Stockholders' Meeting
May 31, 2010, 3:00 PM
Meralco Theater

MR. CHAIRMAN,
FELLOW SHAREHOLDERS,
GOOD AFTERNOON,

Over the past two and a half years we have made substantial changes in First Holdings to take advantage of the opportunities to grow our various businesses, as well as address our debt problem.

In 2008, we sold our tollroad business, First Philippine Infrastructure Inc. More conspicuously, we have divested a substantial portion of our ownership in Meralco down to the current level of 6.6%. We have since made additional investments in First Gen, Rockwell Land and First Solar.

In July 2009, First Holdings sold 223 million common shares of Meralco (about 20% of the outstanding stock) to Piltel for P20.07 billion, which



resulted in a net gain of P7.2 billion. In March 2010, we completed the sale of 74.7 million common shares of Meralco (approximately 6.6% of the outstanding stock) to the Metro Pacific Group for a total price of P22.4 billion. This resulted in a net gain of P23.6 billion, which is included in our results of operations for the first quarter of 2010.

These developments allowed us to deliver solid financial results. First Holdings ended 2009 with a net income attributable to equity holders of the Parent amounting to P8.5 billion, or P13.40 per diluted share. This is the second highest level of net income we have ever attained.

2009 income was significantly better than the P1.2 billion registered the previous year due to the P7.2 billion net gain from sale of our 20% interest in Meralco, lower finance costs and foreign exchange losses, as well as higher earnings posted by most of our subsidiaries and associates. Even without the gain, recurring income for 2009 improved over last year. You will hear more about the earnings of our major subsidiaries and associates later.

At the Parent level, we used the Meralco proceeds to pay down debts (P10.0 billion) and invest in our existing businesses (P9.0 billion). We ended the year with a net cash of about P5.0 billion. As a positive



consequence of our deliberate efforts to pare down debt, our credit rating from Philratings improved two notches, from PRS A plus to PRS Aa. This is important to us as we compete in today's difficult credit market.

We had been paying dividends to our common shareholders since 2004, but this was briefly interrupted in 2008. We have resumed our dividend payments in December 2009 and have returned close to P1.0 billion to our common and preferred shareholders.

Reducing our stake in Meralco was a difficult decision we had to make. It allowed us to reduce our risk profile and with the cash we raised, we are in a much better position to compete. Moving forward, we consider our 6.6% remaining interest in Meralco as strategic. We do not intend to sell this remaining shares soon. However, international accounting standards dictate that with the sale, First Holdings' significant influence over Meralco was deemed lost as its remaining interest entitles it to only one out of the 11 seats in the Board of Meralco.



Hence, effective March 31, 2010, our investment in Meralco was reclassified from the Investments in associates account to the Available-for-sale financial assets (AFS), which are both non-current assets. AFS financial assets are measured at fair value. Any periodic gain or loss is recorded to an unrealized gain or loss account that is reported as a separate item in the Equity section of the Balance Sheet. The gains or losses from available-for-sale financial assets are not reported in the income statement until such time that the investments are sold or determined to be impaired.

Let me now walk you through our subsidiaries' and associates' performance:

[First Gen](#)

Recall that in November 2007, First Gen through Red Vulcan won the bid for the Energy Development Corporation at a purchase price of P58.5 billion. The acquisition was funded by bridge loans at the First Gen and Red Vulcan levels. Reducing and terming out its obligations was the focus for 2008 to 2009 for First Gen. The success of its various refinancing activities brought finance costs down to \$112 million in 2009 from \$121 million in 2008. More importantly, currently



maturing loans went down to \$46 million from \$518 million. Hence, First Gen's net income went up by 16% to almost \$17 million.

EDC remains the biggest investment of First Gen. Since its acquisition in 2007, EDC has contributed P2.7 billion in equity in earnings and paid P2.4 billion in dividends to First Gen through Red Vulcan.

We remain upbeat on the earnings potential of our power generation unit as it actively participates in the auction of power assets being privatized by the government. Last September 2009, EDC, submitted the highest bid for the 193 MW Palinpinon and 113 MW Tongonan geothermal power plants. Most recently, it won the bid for the 150 MW Bacon-Manito geothermal complex.

First Gen plans to spend \$1.5 billion for expansion in the next three to five years to enhance its position as a leading IPP in the country. It also continues to explore business opportunities outside the Philippines.

Meralco

Almost six years since Meralco's last rate increase in June 2003 and almost two and a half years after it filed its application for the approval of its PBR rates, Meralco's first adjustment under PBR was finally implemented in May 2009. The rate adjustment, combined with the reduction in purchased power cost and provisions for refunds fueled the increase in Meralco's net income to P6.0 billion, higher by 114% compared to the previous year.

Among its operating highlights were: energy sales increased 1.7% to 27,516 GWh; total number of customers grew by 3.1% to 4.7 million; an additional 237.4 GWh were recovered from 57 self-generating companies; and systems loss of 8.61% is at its lowest level since 1981 and even better than the 9.5% cap.

The Board of Directors formalized a dividend policy equivalent to 50% of core earnings, which may be supplemented by special dividends on a "look-back" basis. In 2009, the First Holdings Group received over P550 million in cash dividends.



We expect Meralco to post even better earnings this year, through the growth in electricity sales and prudence in managing costs.

Manufacturing

First Holdings remains committed to growing its manufacturing business. Through First Philec, we have infused additional investments in First Solar. Revenues of First Philec reached P4.4 billion in 2009 resulting in a net income of P56 million. Revenues increased by 74%, while net income increased by 81%. We expect to see progressive improvement in the top line as well as bottom line of this sector.

Property Development

Our property businesses outperformed the previous year with their combined contribution of P711 million to First Holdings' income, substantially higher than their combined contribution of P192 million in 2008. First Philippine Industrial Park delivered P726 million in net profit or P1.2 billion in revenues, its highest so far. Revenues of Rockwell Land, meanwhile, amounted to P4.1 billion, while its net income reached P634 million. Revenue grew by 16%, net income by 5%.



We have increased our investment in property development. We purchased the 24.5% stake of Benpres Holdings in Rockwell Land for P1.5 billion, bringing our ownership to 49%. Rockwell Land has consistently reported profit growth, so with our stake now at 49%, we expect an increase in the earnings contribution of our property business.

Infrastructure

First Balfour Inc. and First Philippine Industrial Corp. continue to provide stable earning to First Holdings.

For the past two years, First Balfour Inc. has reported record revenues and returns. Revenues in 2009 reached P2.5 billion, while net income reached P138 million. Both revenues and net income exceeded the previous year's record highs of P2.1 billion in revenues and P120 million in net income. First Balfour started the year with an order backlog of over P1 billion. The increase in infrastructure activities will hopefully drive sustained growth in First Balfour.



First Philippine Industrial Corp. (FPIC) registered revenues of P663 million up from the year-ago level of P616 million. Net income also increased, by 13% to P229 million. The top and bottom line growth was reflective of the increase in white line volume and transport rate. FPIC continues to explore other business opportunities, while maintaining its standards in providing world-class pipeline fuel transport services.

[Results for first quarter of 2010](#)

As I mentioned earlier, we completed the sale of 6.6% of our investment in Meralco to Beacon Electric on March 30, 2010. First Holdings received a payment of P300 per share or a total price of P22.4 billion. The gain on the sale and mark-to-market accounting treatment of the residual shares amounted to P23.6 billion. These, combined with lower finance costs and provision for income taxes, Resulted in the first quarter's net income attributable to equity holders of the Parent amounting to P24.6 billion against the previous period's P178 million.

Thank you and good afternoon.