

aboitiz outlook



August 5, 2010

- **Aboitiz Equity 1H income up 228% to P11.3bn**

For the period ending June 30, 2010, Aboitiz Equity Ventures, Inc. (AEV) recorded a consolidated net income of P11.3 billion (bn), up 228% year-on-year (YOY). This translates to P2.04 in earnings per share for the first semester of 2010. The power group still accounted for the lion's share at 85%. The banking and food groups' income share were roughly the same at 8%, offsetting the transport group's negative share for the first six months of the year.

The company incurred a non-recurring loss of P120 mn (versus last year's P430 mn non-recurring income), which resulted from the revaluation of consolidated dollar-denominated liabilities. Accounting for this, AEV's core earnings for the first semester of 2010 was at P11.4 bn, up 279% YOY.

AEV President & CEO Erramon Aboitiz said: *"We are very pleased to see the investments we made in our various businesses over the years bear fruit. Our businesses are well positioned to take advantage of a growing economy. We remain very optimistic on the Philippine economy and our investments."*

Business Segments

Power

AboitizPower Corp. (AboitizPower) ended the semester with an income contribution of P9.7 bn, a significant increase from P1.2 bn from the same period last year. When adjusted for non-recurring items, the group recorded a 593% YoY rise in its earnings share, from P1.4 bn to P9.8 bn.

The power generation business contributed P9.8 bn, recording an increase of 1127% YoY. This was on the back of a 356% YoY rise in total attributable power sales, from 1,093 (Gigawatt hours) GWh to 4,984 GWh. The Tiwi-Makban geothermal power plants, which were turned over to AboitizPower in May 2009, had a full six months contribution in 2010. In addition, fresh contributions from the Pagbilao coal-fired power plant, the power barges, one unit of the Sibulan hydro power plant and two units of the Cebu coal-fired power plant augmented AboitizPower's attributable net generation for the period.

The power distribution group's attributable electricity sales for the first half of the year grew by 9% YoY, from 1,603 GWh to 1,753 GWh. Growth was spurred by increases in attributable power consumption of the residential, commercial and industrial customers, recording YoY increases of 6%, 5% and 12%, respectively. The group's customer base still grew with the residential, commercial and industrial segments increasing by 5%, 3% and 4%, respectively.

Despite the strong growth in AboitizPower's attributable electricity sales, the power distribution business recorded a 7% YoY decline in its earnings contribution, from P485 mn to P449 mn, due to increases in operating expenses for the period. AboitizPower's distribution utility in Mindanao was forced to run its back-up power plant to provide the much-needed power to the Mindanao Grid. The implementation of the

new systems loss allowance in January 2010, from 9.5% to 8.5%, also resulted to additional costs absorbed by two of AboitizPower's distribution utilities.

Financial Services

The financial services group contributed net earnings of P964 mn in the first semester of 2010, recording a 7% YoY improvement from previous year's P899 mn.

Union Bank of the Philippines (UnionBank) ended the semester with an earnings contribution of P903 mn, up by 4% YoY. Net interest income for the semester increased by 11% to P3.5 bn. This was mainly attributable to a 19% reduction in the bank's interest expense. Total interest income decreased by 4% YoY to P5.9 bn. Lower average loan yields for the period coupled with the 6% YoY decline in the bank's loan portfolio resulted to a 10% YoY drop in the bank's interest earnings on loans and receivables, from P3.5 bn to P3.2 bn. In the meantime, interest earnings from investments and trading securities improved by 11% YoY to P2.3 bn, as the expansion on securities portfolio more than offset the decline in average yields.

The bank recorded a 10% YoY decline in its other income, as trading gains and service charges, fees and commissions for the period dropped by 27% and 10% YoY, respectively. UnionBank's cost containment efforts tempered the growth of the bank's other expenses at 6% YoY, from P2.8 bn to P2.9 bn.

UnionBank's asset base stood at P240.4 bn as of semester-end, with a deposit level of P193.6 bn and a loan book of P74.7 bn. The bank's capital adequacy ratio was at 15.7%, while non-performing loans cover was at 109%.

AEV's non-listed thrift bank, City Savings Bank (CitySavings), contributed earnings of P61 mn during the period, up 105% YoY. Coupled with the increase in AEV's ownership in CitySavings (from 34% to 39%), the higher earnings contribution could be attributed to the 49% growth in its interest income on loans and service fees. CitySavings ended the period June 30, 2010 with a total loan book of P5.5 bn, up by P1.6 bn, or 40% YoY, from P3.9 bn. Total resources increased to P7.5 bn from the 2009 year-end level of P6.1 bn. The bank's NPL ratio stood at 1% while its NPL coverage ratio was at 172%. Total capital funds amounted to P959 mn with a capital adequacy ratio of close to 17%.

Transport

The transport group ended the semester with a net loss contribution of P120 mn, a reversal from last year's net income contribution of P384 mn.

The Aboitiz Transport System (ATS) ended the semester with consolidated revenues of P6.7 bn, recording an 8% YoY increase from P6.2 bn. The company's international ship chartering business and supply chain solutions, specifically trading and third party logistics, drove the topline growth for the period.

ATS' local freight and passage businesses saw an overall reduction in their financial performance for the period. The company operated with very limited capacity for the first half of the year, as most of its SuperFerry vessels and freighters were on regular maintenance and drydocking. The local freight and passage businesses turned in revenues of P2.5 bn and P1.5 bn, respectively, recording a 6% and 14% YoY decline, respectively.

ATS registered a net loss of P152 mn for the semester in review. This was mainly attributable to the 25% YoY increase in operating expenses to P6.9 bn. Average fuel prices reversed its trend and recorded a rise of 40% YoY during the period.

Food

For the first half of 2010, income contribution from AEV's non-listed food subsidiary, Pilmico Foods Corporation (Pilmico), recorded a 125% YoY increase to P867 mn. Growth was evident across all businesses. Income contribution from the flour business grew by 249% YoY as volume expansion offset the adverse impact of lower average selling prices. Growth in volumes, coupled with improved margins that resulted from the softening of raw material prices, led to a 51% YoY increase in the feeds business' income contribution. Improvements in both sales volume and selling prices led to a 175% YoY expansion in the swine business' bottomline.

Financial Condition

For the semester ending June 30, 2010, the company's consolidated assets amounted to P157.3 bn, up by 10% from year-end 2009 level. Cash and cash equivalents was at P8.3 bn, 49% higher than year-end 2009 level of P5.6 bn. Consolidated liabilities amounted to P91.6 bn, while Equity Attributable to Equity Holders of the Parent increased by 19% to P53.4 bn. Current ratio as of June 30, 2010 was at 1.24x (versus year-end 2009's 0.79x), while net debt-to-equity ratio was at 1.02x (versus year-end 2009's 1.28x).

AEV is the publicly listed holding and investment management company of the Aboitiz Group. It has interests in power generation and distribution, financial services, food and transport. Three of its investee companies are also listed on the Philippine Stock Exchange. AEV is consistently recognized in international surveys as among the Philippines' best managed companies. It has also been cited for its commitment to good corporate governance.

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