April 15, 2009

Mr. Noel B. Del Castillo
OIC, Disclosure Department
4/F The Philippine Stock Exchange, Inc.
PSE Centre, Exchange Road
Ortigas Center, Pasig City

Dear Mr. Del Castillo:

Attached herewith is the Prospectus for the Aboitiz Power Corporation (AP) Bond Issue.

Thank you.

Very truly yours,

ABOITIZ POWER CORPORATION
By

M. Jasmine S. Oporto
Corporate Secretary

A Corporation Duly Organized and Existing under Philippine Laws
with address at Aboitiz Corporate Center, Gov. Manuel Cuenco Avenue,
Kasambangan, Cebu City, Philippines

Fixed Rate Bonds due 2012
Issue Price: 100% Face Value
Interest Rate: 8.0% p.a.

and

Fixed Rate Bonds due 2014
Issue Price: 100% Face Value
Interest Rate: 8.7% p.a.

Aboitiz Power Corporation (''AP'', the ''Company'', or the ''Issuer'') intends to offer for subscription and issue bonds (the ''Bonds'') with an aggregate principal amount of ₱1,500,000,000.00, with an over-subscription option of up to ₱1,500,000,000.00 (the ''Offer''). The Bonds shall be issued simultaneously in two (2) series on the Issue Date: (a) the Three Year Bonds shall have a term ending three (3) years from the Issue Date, or on April 30, 2012, with a fixed interest rate equivalent to 8.0% per annum; and (b) the Five Year Bonds shall have a term ending five (5) years and one (1) day from the Issue Date, or on May 1, 2014, with a fixed interest rate equivalent to 8.7% per annum. Interest on the Bonds shall be payable quarterly in arrears on July 30, October 30, January 30 and April 30 of each year while the Bonds are outstanding. (see ''*Description and Terms and Conditions of the Bonds*'' — ''*Interest*'' on page 48)

Subject to the consequences of default as contained in the Trust Agreement, and unless otherwise redeemed prior to Maturity Date, the Bonds will be redeemed at par (or 100% of face value) on the relevant Maturity Date, as set out in ''*Description and Terms and Conditions of the Bonds*'' — ''*Redemption and Purchase*' on page 49.

Upon issue, the Bonds shall constitute direct, unconditional, unsubordinated, and unsecured obligations of AP and shall at all times rank pari passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of AP, except for any statutory preference or priority established under Philippine law. The Bonds will effectively be subordinated in right of payment to all of AP's secured debts, as allowed under the Trust Agreement, to the extent of the value of the assets securing such debt and all of its debts evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines. As of the date of this Prospectus, AP has no existing secured debt or debts evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

The Bonds have been rated PRS Aaa by the Philippine Rating Services Corporation (''PhilRatings'') as of January 30, 2009. The rating denotes the smallest degree of investment risk where interest payments are protected by a large or by an exceptionally stable margin and principal is secured. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the rating agency concerned.

The Bonds shall be offered to the public at par through the Joint Lead Managers named below with Philippine Depository & Trust Corp ("PDTC") as the Registrar and Depository of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Registry Book and listed in the Philippine Dealing & Exchange Corporation ("PDEx"). The Bonds shall be issued in denominations of ₱50,000.00 each, as a minimum, and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market. (see ''*Description and Terms and Conditions of the Bonds*'' — ''*Form* and *Denomination*'' on page 46 and "*Description and Terms and Conditions of the Bonds*" – "*Transfer of Bonds*" on page 47)

Joint Lead Managers

BDO BPI Capital First Metro Investment Corporation Metrobank Group ING

The date of this Prospectus is April 13, 2009

Prospectus

(A corporation duly organized and existing under Philippine laws)

Offer for Subscription of 8.0 % Fixed Rate Bonds due 2012
at an Issue Price of 100% of Face Value

and

8.7 % Fixed Rate Bonds due 2014
at an Issue Price of 100% of Face Value

This Prospectus relates to the Offer of ₱1,500,000,000.00, with an over-subscription of up to ₱1,500,000,000.00 Fixed Rate Bonds of Aboitiz Power Corporation due either three years from Issue Date (for the Three Year Bonds) or five years and one day from Issue Date (for the Five Year Bonds) at an issue price of 100% of face value (the ''Issue Price'').

AP expects to raise gross proceeds amounting to ₱1.5 billion from the Offer. The net proceeds are estimated to be ₱1,477,186,875.00, after deducting expenses relating to the issuance of the Bonds. Proceeds of the Offer will be used by AP to partially finance the Company's acquisition of the Tiwi-MakBan Geothermal Complex. (see ''*Use of Proceeds*'' on page 39)

The Joint Lead Managers will receive a fee of 0.60% of the gross proceeds of the Offer. Such fee shall be inclusive of underwriting and participation commissions. The underwriting fees and/or selling commissions due to the Joint Lead Managers together with any applicable gross receipts tax (''GRT'') or its equivalent and net of any applicable withholding tax arising in respect of such fee, shall be due and payable by the Issuer to the Joint Lead Managers on the date that the Issuer receives the proceeds of the Offer from the Joint Lead Manager and such fees shall be deducted from such proceeds. Although the Joint Lead Managers are authorized to organize a syndicate of sub-underwriters, soliciting dealers and/or selling agents for the purpose of the Offer, AP has no direct obligation to any member of such syndicate for any fee, underwriting or participating commission. (see ''*Plan of Distribution*'' on page 42)

The Securities and Exchange Commission of the Philippines (''SEC'') issued an Order of Effectivity with respect to the Offer on April 14, 2009. The issuance of such Order of Effectivity is permissive only and does not constitute a recommendation or endorsement of the Bonds to be offered for sale.

Unless otherwise stated, the information contained in this Prospectus relating to AP and its operations and those of its Subsidiaries has been supplied by AP, which hereby accepts full responsibility for the accuracy of the same, and confirms, having made all reasonable inquiries, that to the best of its knowledge and belief, there are no other material facts, the omission of which would make any statement in this Prospectus misleading in any material respect. As to the other information which are made on the basis of, or in connection with, information, data or analyses which were either provided to AP by its advisers and consultants or otherwise available in the market and from any public source, AP confirms that it has made all reasonable inquiries in respect of the same and have used or adopted such information, data or analyses in good faith. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information contained herein is correct as of any time subsequent to the date hereof. The Joint Lead Managers confirm that they have

exerted reasonable efforts to verify the information contained herein but do not make any representation, express or implied, as to the accuracy or completeness of the materials contained herein.

No dealer, salesperson or other person has been authorized by AP, or the Joint Lead Managers to issue any advertisement or to give any information or make any representation in connection with the Offer or sale of the Bonds other than those contained in this Prospectus and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorized by AP or the Joint Lead Managers.

Risks of Investing

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several factors inherent to the Company (detailed in "*Risk Factors and Other Considerations*" on page 22 of this Prospectus) such as risks pertinent to the industry and operational risks relevant to the Philippines vis-à-vis risks inherent to the Bonds, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds.

Risk factors include risks related to the Company's business, risks related to the Company's growth, risks related to the Philippines and risks related to the Offer.

The contents of this Prospectus are not to be considered as legal, business, or tax advice. The Joint Lead Managers do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on the Joint Lead Managers or any other person in his investigation of the accuracy of such information or his investment decision. Each person contemplating an investment in the Bonds must make his own investigation and analysis of the creditworthiness of AP and his own determination of the suitability of any such investment. Prospective investors in the Bonds are advised to observe certain risks in connection with such investment in the Bonds as outlined in the section ''*Risk Factors and Other Considerations*'' on page 22 of the Prospectus.

Each investor in the Bonds offered thereby must comply with all applicable laws in force in its jurisdiction in which it purchases, offers, sells the Bonds and must obtain the necessary consent, approval or permission for its purchase, offer or sale under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase, offer, or sale, and neither AP nor the Joint Lead Managers shall have any responsibility therefor.

The information contained herein is being submitted to investors only in connection with the transaction described herein and may not be reproduced, in whole or in part, for any other purpose.

AP is organized under the laws of the Philippines.

Its dividend policy is to maintain an annual cash dividend payment ratio of approximately one-third of its consolidated net income from the preceding fiscal year, subject to the requirements of applicable laws and regulations and the absence of circumstances which may restrict the payment of cash dividends, such as AP's undertaking of major projects and developments requiring substantial cash expenditure or restrictions on cash dividend payments under its loan covenants.

Any inquiries regarding this prospectus should be forwarded to AP. Its principal office is at the Aboitiz Corporate Center, Gov. Manuel Cuenco Avenue, Kasambagan, 6000 Cebu City, Philippines, with telephone number +63 32 4111800.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.

Original signed and notarized.

Erramon I. Aboitiz
President and Chief Executive Officer

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FORWARD LOOKING STATEMENTS

This Prospectus contains certain ‘‘forward-looking statements’’. These forward-looking statements can generally be identified by use of statements that include words or phrases such as AP or its management ‘‘believes’’, ‘‘expects’’, ‘‘anticipates’’, ‘‘intends’’, ‘‘plans’’, ‘‘projects’’, ‘‘foresees’’, or other words or phrases of similar import. Similarly, statements that describe AP’s objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of AP include, among others:

- general economic, political and other conditions in the Philippines;
- the Company’s management’s expectations and estimates concerning its future financial performance;
- the Company’s level of indebtedness;
- the Company’s capital expenditure program and other liquidity and capital resources requirements;
- the size and growth of the Company’s customer base;
- inflation in the Philippines and any devaluation of the Philippine Peso;
- existing and future governmental regulation; and
- the risk factors discussed in this Prospectus as well as other factors beyond the Company’s control.

For further discussion of such risks, uncertainties and assumptions, see ‘‘*Risk Factors and Other Considerations*’’ on page 22. Prospective purchasers of the Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus, and AP undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

DEFINITION OF TERMS

Aboitiz Group	ACO and the companies or entities in which ACO has a beneficial interest and, directly or indirectly, exercises management control, including, without limitation, Aboitiz Equity Ventures, Aboitiz Power Corporation, Union Bank of the Philippines and their respective Subsidiaries and Affiliates
Abovant	Abovant Holdings, Inc.
ACO	Aboitiz & Company, Inc.
AESI	Aboitiz Energy Solutions, Inc.
AEV	Aboitiz Equity Ventures, Inc.
Affiliate	With respect to any Person, any other Person directly or indirectly Controlled under common Control with, such Person
Ambuklao Plant	The 75 MW Ambuklao Hydroelectric Power Plant of SNAP-Benguet located in Bokod, Benguet
AP	Aboitiz Power Corporation, also referred to as the "Company" or the "Issuer"
AP Group or The Group	The Company and its Subsidiaries
APRI	AP Renewables, Inc.
Bakun Plant	The 70 MW Bakun Hydroelectric Plant of LHC located in Ilocos Sur
BEZ	Balamban Enerzone Corporation
Banking Days	Any day other than Saturday, Sunday and public holidays, on which commercial banks and the Philippine Clearing House Corporation are generally open for the transaction of business in Makati City and the City of Manila; *provided,* that all other days otherwise specified herein shall mean calendar days which shall be construed as successive periods of twenty-four (24) hours each
Binga Plant	The 100 MW Binga Hydroelectric Power Plant of SNAP-Benguet located in Itogon, Benguet
BIR	Bureau of Internal Revenue
BOI	The Philippine Board of Investments
Bondholder	A Person whose name appears, at any time, as a holder of the Bonds in the Register of Bondholders
Bonds	The fixed rate bonds in the aggregate principal amount of up to ₱1,500,000,000.00 with an oversubscription option of up to ₱1,500,000,000.00 to be issued by Aboitiz Power Corporation in Three Year Bonds and Five Year Bonds series

BOT	Build-Operate-Transfer
Bunker C	A term used to designate the thickest of the residual fuels that is produced by blending any oil remaining at the end of the oil-refining process with lighter oil
CEDC	Cebu Energy Development Corporation
Chevron	Chevron Geothermal Philippines Holdings, Inc.
CLPC	Cotabato Light and Power Company
COC	Certificate of Compliance
CPCN	Certificate of Public Convenience and Necessity
Control	The possession, directly, or indirectly, by a Person of the power to direct or cause the direction of the management and policies of another Person whether through the ownership of voting securities or otherwise; provided, however, that the direct or indirect ownership of over fifty percent (50.0%) of the voting capital stock, registered capital or other equity interest of a Person is deemed to constitute control of that Person, and "Controlling" and "Controlled" have corresponding meanings
Consolidated Equity	The total equity of the Issuer as recognized and measured in its audited consolidated financial statements in conformity with the Philippine Financial Reporting Standards
CPPC	Cebu Private Power Corporation
Current Ratio	The ratio of total current assets over total current liabilities of the Issuer
Debt to Equity Ratio	With respect to the Bonds, the ratio of Total Liabilities over Consolidated Equity of the Issuer; and with respect to the Subsidiaries and Affiliates, Total Liabilities over Equity of the Subsidiary or Affiliate.
DLPC	Davao Light and Power Company, Inc.
DOE	Department of Energy
DOLE	Department of Labor and Employment
Distribution Companies	BEZ, CLPC, DLPC, MEZ, SEZ, SFELAPCO, and VECO
EAUC	East Asia Utilities Corporation
EBITDA	Represents Net Income after adding provisions for income tax, depreciation and amortization, net financial expense, and non-recurring losses such as net foreign exchange loss and net loss on disposal of assets.
El Paso Philippines	El Paso Philippines Energy Company, Inc.
EPIRA	RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001", as amended from time to time, and including the rules and regulations issued thereunder

ERB	Energy Regulatory Board, predecessor of the ERC
Enerzone Companies	A term collectively referring to BEZ, MEZ and SEZ - the Company's distribution utilities operating within special economic zones.
ERC	Energy Regulatory Commission
Events of Default	Those events defined as such under the Trust Agreement
Evonik Steag	Evonik Steag GmbH
Five Year Bonds	Fixed rate Bonds having a term ending five (5) years and one (1) day from the Issue Date. For purposes of the Registry and listing with the PDEx, these Bonds shall likewise be referred to as "ÄP Bonds 2014"
FOSA	Fuel Oil Supply Agreement
Formosa Heavy Industries	Formosa Heavy Industries Corporation
GDP	Gross Domestic Product
Generation Companies	APRI, CPPC, DLPC, EAUC, Hedcor, Hedcor Sibulan, Hedcor Tamugan, LHC, SNAP-Magat, SNAP-Benguet, SPPC, STEAG Power, WMPC, RP Energy, and CEDC
Global Formosa	Global Formosa Power Holdings, Inc.,
Global Power	Global Business Power Corporation of the Metrobank Group
Government	The Government of the Republic of the Philippines
Governmental Authority	The Republic of the Philippines, or any political subdivision or agency thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to the said government, and any national agency or body vested with jurisdiction or authority over any Person
Greenfield	Power generation projects that are developed from inception on previously undeveloped sites
GRSC	Geothermal Resources Service Contract
GWh	Gigawatt-hour, or one million kilowatt-hours
HEDC	Hydro Electric Development Corporation
Hedcor	Hedcor, Inc.
Hedcor Consortium	The consortium comprised of PHC, Hedcor, Hedcor Sibulan and Hedcor Tamugan with an existing PSA with DLPC for the supply of 400,000,000 kWh per year to DLPC
Hedcor Sibulan	Hedcor Sibulan, Inc.

Hedcor Tamugan	Hedcor Tamugan, Inc.
IFRIC 12	Refers to the Philippine Interpretation of the International Financial Reporting Interpretations Committee, Interpretation No. 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. A financial asset is recognized to the extent that the operator has a contractual right to receive cash from the grantor or has a guarantee from tha grantor. An intangible asset is recognized to the extent that the entity has a righ to charge the public for the use of the asset. Philippine Interpretation IFRIC 12 becomes effective for annual periods beginning on or after January 1,2008.
Indebtedness	(i) All indebtedness or other obligations of the Issuer for borrowed money or for the deferred purchase price of property or services and similar arrangements; (ii) All indebtedness or other obligations of any other Person, the payment or collection of which is guaranteed by the Issuer (except by reason of endorsement for collection in the ordinary course of business) or in respect of which the Issuer is liable, contingently or otherwise, including without limitation, any agreement to purchase, to provide funds for payment, to supply funds to or otherwise invest in such Person; and (iii) Capitalized lease obligations of the Issuer
IPO	Initial Public Offering
IPP	Independent Power Producer
kV	Kilovolt, or one thousand volts
kW	Kilowatt, or one thousand watts
kWh	Kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
LHC	Luzon Hydro Corporation
Lien	With respect to any Person, any lien, pledge, mortgage, charge, hypothecation, encumbrance or other security or preferential arrangement on or with respect to any asset or revenue of such Person
Magat Plant	The 360 MW Magat Hydroelectric Power Plant of SNAP-Magat located at the border of Isabela and Ifugao provinces
Material Adverse Effect	A material adverse effect on the ability of the Issuer to perform or comply with any of its obligations, or to exercise any of its rights, under the Trust Agreement or the Bonds
Material Affiliate	Any corporation: (i) at least forty percent (40.0%) of whose voting stock is owned directly by the Issuer; and (ii) a majority of whose board of directors is Controlled by the Issuer; and (iii) whose net income, as shown by its latest audited financial statements, are at least fifteen percent (15.0%) of the total consolidated net income of the Issuer; *Provided*, that for the purpose of determining whether a corporation is a Material Affiliate or not, the total

	consolidated net income of the Issuer shall be adjusted to include the net income of such corporation, as if such corporation is consolidated in the latest audited financial statements of the Issuer. For avoidance of doubt, as of the date of this Prospectus, the Material Affiliates of the Issuer are as follows: (a) Davao Light and Power Company, Inc.; (b) Philippine Hydropower Corporation; and (c) Therma Power, Inc. upon completion of its ongoing reorganization
MEPZ I	Mactan Export Processing Zone I
MEPZ II	Mactan Export Processing Zone II
MEZ	Mactan Enerzone Corporation
MORE	Manila-Oslo Renewable Enterprise, Inc.
MW	Megawatt, or one million watts
MWh	Megawatt-hour
MVA	Megavolt Ampere
NEA	National Electricification Administration
NIA	National Irrigation Authority
NPC	National Power Corporation
NORMIN	Northern Mini Hydro Corporation, now known as Cleanergy, Inc.
NWRB	National Water Resources Board
Okeelanta	Okeelanta Corporation
PASUDECO	Pampanga Sugar Development Corporation
PBR	Performance-based rate-setting regulation
PDEx	Philippine Dealing and Exchange Corporation
PDTC	Phillipine Depository & Trust Corporation
PEMC	Philippine Electricity Market Corporation
Person	Individual corporation, partnership, joint venture, unincorporated association, trust or other juridical entity, or any governmental authority
Philippine Pesos or ₱	The lawful currency of the Philippines
Petron	Petron Corporation
PHC	Philippine Hydropower Corporation
PHPL	Pacific Hydro Power Ltd.

PPA	Power Purchase Agreement
PSA	Power Supply Agreement
PSALM	Power Sector Assets and Liabilities Management Corporation
PSE	Philippine Stock Exchange
PSOP	Power Supply Option Program
PSPA	Power Supply and Purchase Agreement
RA	Republic Act
RDWR	Rules for Setting Distribution Wheeling Rates
Registry Book	The electronic record of the issuances, sales and transfers of the Bonds to be maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
Renewable Energy Act or RE Law	RA No. 9513, otherwise known as the Renewable Energy Act of 2008
RORB	Return-on-rate base rate setting system
RP Energy	Redondo Peninsula Energy, Inc.
Run-of-river hydroelectric plant	Hydroelectric power plant that generates electricity from the natural flow and elevation drop of a river
SBFZ	Subic Bay Freeport Zone
SBMA	Subic Bay Metropolitan Authority
SEC	The Securities and Exchange Commission of the Philippines
SEZ	Subic Enerzone Corporation
Sibulan Project	Two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur
SFELAPCO	San Fernando Electric Light and Power Co., Inc.
SNAP - Benguet	SN Aboitiz Power – Benguet, Inc. (formerly, SN Aboitiz Power Hydro, Inc,)
SNAP - Magat	SN Aboitiz Power – Magat, Inc.
SPPC	Southern Philippine Power Corporation
SN Power	Statkraft Norfund Power Invest AS of Norway
STEAG Power	STEAG State Power, Inc.
Stranded Costs	As defined in the EPIRA, the excess of the contracted costs of electricity under

	eligible contracts over the actual selling price of the contracted energy output under such contracts. Eligible contracts are those approved by the ERB from December 31, 2000 onwards.
Subsidiary	In respect of any Person, any entity (i) over fifty percent (50.0%) of whose capital is owned directly by that Person; or (ii) for which that Person may nominate or appoint a majority of the members of the board of directors or such other body performing similar functions
TCIC	Taiwan Cogeneration International Corporation
Team Philippines	TEaM Philippines Industrial Power II Corporation (formerly Mirant (Phils.) Industrial Power II Corp.)
TESDA	Technical Education and Skills Development Authority
Three Year Bonds	Fixed rate Bonds having a term ending three (3) years from the Issue Date. For purposes of the Registry and listing with the PDEx, these Bonds shall likewise be referred to as "ÄP Bonds 2012"
Tiwi-MakBan	Tiwi-MakBan Geothermal Complex, composed of eight (8) geothermal plants and one (1) binary plant, located in the provinces of Batangas, Laguna and Albay.
Total Liabilities	The total economic obligations of the Issuer that are recognized and measured in its audited parent financial statements, in accordance with the Philippine Financial Reporting Standards
TPC	Toledo Power Company
TPI	Therma Power, Inc.
Transco	National Transmission Corporation and, as applicable, the National Grid Corporation of the Philippines or NGCP which is the Transco concessionaire
Transfield	Transfield Philippines, Inc., the turnkey contractor of the 70 MW Bakun Plant of LHC
Trust Agreement	Trust Agreement dated April 13, 2009 entered into between the Company and the Trustee in relation to the Bonds
TSA	Transmission Service Agreement
Trustee	The Bank of the Philippine Islands – Asset Management and Trust Group, the entity appointed by the Issuer which shall act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate.
TSC	Transition Supply Contract
US$ or U.S. dollar	The lawful currency of the United States of America
VECO	Visayan Electric Company, Inc.

VAT	Value Added Tax
WCIP	West Cebu Industrial Park
WESM	Philippine Wholesale Electricity Spot Market
WMPC	Western Mindanao Power Corporation

SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus.

THE COMPANY

AP is a publicly listed holding company that, through its Subsidiaries and Affiliates is a leader in the Philippine hydroelectric power generation industry and has interests in some of the largest privately-owned distribution utilities in the Philippines. Since its incorporation in 1998, the Company has accumulated interests in both hydroelectric and thermal power generation facilities. The Company's controlling shareholder, AEV is a diversified conglomerate that is listed on the PSE and has interests in power generation, power distribution, financial services, transportation and food manufacturing. This relationship allows the Company to draw on the extensive business networks, local business knowledge, relationships and expertise of AEV's and the Aboitiz Group's senior managers to identify growth opportunities at an early stage and to capitalize on such opportunities more decisively.

The Company's hydroelectric power generation facilities include the 175 MW Ambuklao-Binga hydroelectric complex in Benguet and the 360 MW Magat Plant in Isabela and Ifugao, both joint ventures with SN Power; the 70 MW Bakun Hydro Plant in Ilocos Sur, in a joint venture with Pacific Hydro Limited of Austrialia; and 15 mini hydro plants in Benguet and Davao City run by Hedcor, Inc., with a combined generating capacity of 38.2 MW. In 2007 and 2008, these facilities generated and sold a total attributable energy of 660.1 GWh and 943 GWh, respectively.

As of December 31, 2008, the Company's Bunker C-fired plants had a total attributable capacity of 98 MW. The Company has a 20.0% ownership interest in each of SPPC and WMPC. Each of SPPC and WMPC operates a Bunker C-fired plant located in Alubel, Sarangani and Zamboanga City respectively, with a combined generating capacity of 155 MW.

In the first half of 2007, the Company acquired a 50.0% interest EAUC which owns and operates a 50 MW Bunker C fired plant located in Mactan, Cebu. At the same time, the Company purchased a 60.0% ownership interest in CPPC which operates a 70 MW Bunker C-fired plant in Cebu City. In addition, two of the Company's distribution utilities, DLPC and CLPC, operate two Bunker C-fired plants with a combined installed capacity of 60 MW which are used for back-up power. In 2007 and 2008, these facilities generated and sold a total attributable energy of 3,479 GWh and 6,313 GWh of electricity, respectively.

In January 2007, the Company entered into a series of transactions with AEV pursuant to which it acquired ownership interests in the Distribution Companies. As a result, the Company owns interests in several distribution utilities in Luzon, Visayas and Mindanao, including VECO and DLPC, which are respectively the second-and third largest privately owned distribution utilities in the Philippines in terms of both customers and annual GWh sales. The Company also owns interests in CLPC, SEZ, SFELAPCO, MEZ and BEZ. In 2008, the Distribution Companies sold a total attributable energy of 3,141.7 GWh of electricity to approximately 658,318 customers.

On November 15, 2007, AP closed the sale and purchase of a 34.0% equity ownership in STEAG Power, owner and operator of a 232 MW coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy from Evonik Steag GmbH (formerly known as STEAG GmbH) the 34.0% equity in August 2007. The total purchase price for the 34.0% equity in STEAG Power is US$102 million, inclusive of interest.

On November 28, 2007, SNAP-Benguet, a consortium between the Company and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75 MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100 MW Binga Hydroelectric Power Plant

located at Itogon, Benguet. The price offered amounted to US$325 million. The PSALM issued the Notice of Award to SNAP-Benguet on December 19, 2007. Last July 10, 2008, PSALM formally turned over Ambuklao-Binga to SNAP-Benguet.

On July 30, 2008, APRI, a wholly owned subsidiary of the Company, submitted the highest bid to the PSALM for the 289 MW Tiwi geothermal facility in Albay and the 458 MW Makiling-Banahaw geothermal facility in Laguna (Tiwi-Makban). The price offered amounted to approximately US$447 million.

Ownership in the Company was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in the PSE on July 16, 2007.

SUMMARY FINANCIAL INFORMATION

The following tables set forth financial and operating information on AP. Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements, including the notes thereto, presented as an Annex and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Prospectus on page ***Error! Bookmark not defined.****. The summary financial data for the three years ended December 31, 2008, December 31, 2007 and December 31, 2006 are derived from the Company's audited financial statements, including the notes thereto, which are found elsewhere in this Prospectus. The information below is not necessary indicative of the results of future operations.*

The following table summarizes the financial highlights of AP's consolidated financial performance:

	For the years ended December 31		
	2006 (As restated)	**2007 (As restated)**	**2008**
		(audited) (in million ₱s)	
Income statement data			
Operating Revenues	8,681	11,312	12,243
Operating Expenses	7,398	9,329	10,590
Gross Profit	1,283	1,983	1,653
Share in net earnings of associates	1,076	2,804	2,784
Interest income	53	331	608
Interest expense	(222)	(198)	(379)
Other income (charges) -net	108	(11)	376
Income before Income Tax	2,298	4,909	5,042
Provision for Income Tax	405	634	618
Net Income	**1,893**	**4,275**	**4,424**
Attributable to:			
Equity Holders of the Parent	1,869	4,161	4,334
Minority Interests		114	90
	24		
Earnings Per Common Share			
Basic, for income for the year attributable to ordinary equity holders of the parent	0.37	0.66	0.59
Diluted, for income for the year attributable to ordinary equity holders of the parent	0.37	0.66	0.59

	As of December 31		
	2006 (As restated)	2007 (As restated)	2008
	(audited) (in million ₱ s)		(audited) (in million ₱ s)
Balance sheet data			
Assets			
Current Assets			
Cash and cash equivalents	1,494	13,288	14,915
Trade and other receivables - net	2,596	1,661	1,991
Materials and supplies	217	375	332
Other current assets	131	315	501
Total Current Assets	**4,438**	**15,639**	**17,739**
Noncurrent Assets			
Property, plant and equipment- net	3,086	4,101	6,258
Intangible Assets - Service concession rights	543	662	854
Investment property	10	10	10
Investments in and advances to associates	3,914	14,600	21,251
Available for sale investments	9	9	4
Goodwill	220	996	996
Pension asset	16	29	10
Deferred income tax assets	10	61	66
Other noncurrent assets	34	69	84
Total Noncurrent Assets	**7,842**	**20,537**	**29,533**
Total assets	**12,280**	**36,176**	**47,272**
Liabilities			
Current Liabilities			
Bank Loans	30	3,344	4,798
Trade and other payables	1,161	2,694	3,145
Current portion of long –term obligations	40	40	40
Current portion of payable to preferred shareholders	-	8	9
Current portion of long-term debt	116	20	16
Income tax payable	60	112	82
Total Current Liabilities	**1,407**	**6,218**	**8,090**
Noncurrent Liabilities			
Long-term debt	1,052	817	6,506
Long-term lease obligation-net of current portion	259	256	252
Customers' deposits	1,129	1,374	1,571
Pension liability	18	15	14
Payable to preferred shareholders – net of current portion	-	97	88
Deferred income tax liability	16	39	59
Total Noncurrent Liabilities	**2,474**	**2,598**	**8,490**
Equity Attributable to Equity Holders of the Parent			
Capital Stock – P 1 par value	4,889	7,359	7,359
Additional paid-in capital	-	12,589	12,589
Share in cumulative translation adjustment of associates	106	(576)	(18)
Acquisition of minority interest	-	(107)	(259)
Retained earnings	3,316	7,476	10,485
Minority Interest	88	619	536
Total Equity	**8,399**	**27,360**	**30,692**
Total liabilities and equity	**12,280**	**36,176**	**47,272**

Key Performance Indicators	2006	2007	2008
Amounts in millions ₱s, except for financial ratios			
EQUITY IN NET EARNINGS OF ASSOCIATES	**1,076**	**2,804**	**2,785**
EBITDA	**2,937**	**5,584**	**5,407**
CASH FLOWS GENERATED:			
Net cash flows from operating activities	826	3,998	1,893
Net cash flows from (used in) investing activities	931	(8,695)	(5,953)
Net cash from (used in) financing activities	(1,240)	16,706	5,227
Net Increase (Decrease) in Cash & Cash Equivalents	**517**	**12,009**	**1,167**
Cash & Cash Equivalents, Beginning	985	1,494	13,288
Cash & Cash Equivalents, End	1,494	13,288	14,915
CURRENT RATIO	**3.15**	**2.52**	**2.19**
DEBT-TO-EQUITY RATIO	**0.46**	**0.32**	**0.54**

Notes:

(1) Equity in net earnings (losses) of investees represents the Group's share in undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any.
(2) EBITDA represents net income after adding provisions for income tax, depreciation and amortization, net financial expense, and non-recurring losses such as net foreign exchange loss and net loss on disposal of assets.
(3) Current ratio is calculated by dividing total current assets by total current liabilities.
(4) Debt to Equity ratio is determined by dividing total liabilities by total equity.
(5) Balance sheet data as of December 31, 2006 are derived from prior year audited financial statement, restated for the effect of IFRIC 12.

CAPITALIZATION

The following table sets forth AP's audited consolidated short-term and long-term debt and capitalization as of December 31, 2008. This table should be read in conjunction with the notes thereto located elsewhere in this Prospectus.

(in ₱ millions)	As of December 31, 2008	As adjusted for the Issue
Short Term Debt		
Bank loans	4,798	4,798
Current portion of payable to preferred shareholder of a subsidiary	9	9
Current portion of long term debts - net of deferred financing costs	16	16
Total Short Term Debt	4,823	4,823
Long Term Debt		
Long term debts – net of current portion and deferred financing costs [(2)]	6,506	6,506
Payable to preferred shareholder of a subsidiary – net of current portion	88	88
The issue of Bonds [(1)]	-	1,500
Total Long Term Debt – net of current portion and deferred financing costs	6,594	8,094
Equity		
Capital stock		
Common Stock – ₱1 par value		
Authorized – 16,000,000 shares		
Issued and subscribed – 7,358,604 in 2007	7,358	7,358
Additional paid-in capital	12,589	12,589
Share in cumulative translation adjustments of associates	(18)	(18)
Acquisition of minority interests	(259)	(259)
Retained earnings	10.485	10,485
Equity attributable to equity holders of the parent	30,155	30,155
Minority Interests	536	536
Total Capitalization	**42,108**	**43,608**

Notes:
(1) The Issuer intends to offer ₱1.50 billion, with an over-subscription option of up to ₱1.50 billion of Bonds.
(2) On December 18, 2008, AP issued 5 and 7 year peso-denominated corporate fixed rate notes amounting to ₱3.89 billion. The notes were offered in a private placement to not more than 19 institutions. The proceeds of the notes were used to finance AP's planned acquisitions as well as for other general corporate purposes.

SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with the more detailed information appearing elsewhere in the Prospectus to which it relates.

Issuer	:	Aboitiz Power Corporation
Joint Lead Managers and Underwriters	:	BDO Capital & Investment Corporation BPI Capital Corporation First Metro Investment Corporation ING Bank, N.V.
Trustee	:	Bank of the Philippine Islands Asset Management and Trust Group
Paying Agent Registrar and Depositary	:	Philippine Depository & Trust Corporation
Issue	:	Fixed rate bonds (the "Bonds") constituting the direct, unconditional, unsecured and general obligations of the Issuer
Issue Amount	:	Up to ₱1,500,000,000.00
Over-Subscription	:	In the event of over-subscription, the Joint Lead Managers, in consultation with the Issuer, reserve the right to increase the aggregate size of the Issue by up to ₱1,500,000,000.00
Use of Proceeds	:	Proceeds of the Offer will be used by AP to partially finance the Company's acquisition of the Tiwi-MakBan Geothermal Complex
Issue Price	:	100% face value
Manner of Distribution	:	Public Offering
Offer Period	:	The Offer shall commence on April 15, 2009 and end on April 24, 2009
Issue Date	:	April 30, 2009
Maturity Date or Redemption Date	:	Three Year Bonds: 3 years from Issue Date Five Year Bonds: 5 years and 1 day from Issue Date. The Bonds will be redeemed at par (or 100%) on Maturity Date.
Interest Rate	:	Three Year Bonds: Fixed interest rate of 8.0% p.a. Five Year Bonds: Fixed interest rate of 8.7% p.a.
Interest Payment Date	:	The Interest shall be paid quarterly in arrears on July 30, October 30, January 30 and April 30, or the next Banking Day if such dates fall on a non-Banking Day, of each year commencing on July 30, 2009, until and including the Maturity Date (each, a "Interest Payment Date"). Interest on the Bonds shall be calculated on a 30/360-day basis.
Form and Denomination	:	The Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, and in multiples of ₱10,000.00 thereafter.
Optional Redemption	:	Prior to Maturity Date or Redemption Date, the Issuer may redeem in whole and

not a part only of the relevant outstanding Five-Year Bonds on the twelfth (12^{th}) Interest Payment Date (the "Optional Redemption Date").

The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the Five-Year Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Five Year Bonds on the Optional Redemption Date.

The amount payable to the Bondholders in respect of such redemption shall be calculated based on the principal amount of the Five-Year Bonds being redeemed, as the sum of (i) one hundred two percent (102%) of the principal amount; and (ii) accrued interest on the principal amount of the Five Year Bonds being earlier redeemed.

Status of the Bonds : The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without preference among themselves and among any present and future unsubordinated and unsecured obligations of the Issuer, except for any statutory preference or priority established under Philippine law.

RISK FACTORS AND OTHER CONSIDERATIONS

An investment in the Bonds described in the Prospectus involves a number of risks. The price of the securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There is an extra risk of losing money when securities are bought from smaller companies. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below before deciding to invest in the Bonds.

This section entitled "Risk Factors" does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of these securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in trading of securities, and specifically those high-risk securities. Investors may request publicly available information on the Bonds and the Company from the Philippine SEC.

The risks factors discussed in this section are of equal importance and are only separated into categories for easy reference.

RISKS RELATED TO THE COMPANY'S BUSINESS

Holding Company Structure

As a holding company, AP operates principally through its subsidiaries and affiliates. Substantially all of the Company's cash flow is dependent on cash and dividend distribution from or the proceeds of the realization of, its investments in subsidiaries and affiliates. The ability of the Company's subsidiaries and affiliates to pay dividends to stockholders is subject to applicable law, restrictions contained in debt instruments of such subsidiaries and affiliates, and may also be subject to deduction for taxes. There is no assurance that the Company can generate sufficient cash flow from dividends or other payments to allow it to meet its obligations under the Bonds. Any shortfall would require the Company to tap other available sources of cash, such as a sale of investments or proceeds from other refinancing activities.

Aboitiz Power Corporation's ownership interests in its power generating companies are held through intermediate holding companies. These intermediate holding companies have pledged some of the shares of these power generating companies to project creditors of the power generating companies. Claims of creditors of the Company's Subsidiaries and Affiliates, including trade creditors, bank lenders, and other creditors will have priority over any claims of the Company and the Bondholders with respect to the assets of such Subsidiaries or Affiliates.

Despite the foregoing, the Company's operating Subsidiaries and Affiliates have a long history of declaring increasing amounts of cash dividends to the Company. In addition, bank term loans and project finance loans are structured to provide a good balance between raising sufficient debt and providing the highest levels of return on equity of the Company. Capital structures and debt levels at subsidiary levels of the Company are carefully designed to (i) reflect the risk of operating cashflows, (ii) adequately fund operations and capital expenditure programs, (iii) allow for maximum push of cash upwards beyond retained earnings through redeemable preferred shares; and (iv) maximize equity returns.

The Subsidiaries and Affiliates also have had a long history of successful financing and refinancing for its various companies and projects with strict adherence to the loan covenants and without any default. The Company, being publicly listed, shall continue its strategy of compliance with its debt obligations by

adopting the necessary internal controls in financial management. It shall also continue to adopt good corporate governance policies that will ensure that transactions do not violate debt covenants.

Risks Related to the Generation Companies

Increased competition in the power industry could have a significant adverse impact on the Company's operations and financial performance

In recent years, the Government has sought to implement measures designed to establish a competitive energy market. In 2001, the Philippine legislature enacted RA No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 ("EPIRA"). Its purpose is to establish a transparent and efficient market for the competitive trading of electricity, and to encourage private investment in the power industry. EPIRA includes the privatization of substantially all NPC owned power generation facilities, all NPC controlled capacity through IPP agreements, and all Government owned and operated transmission facilities, and the establishment of a wholesale spot market for electricity. To date, approximately 50.0% of NPC's generation plants have been privatized. A 70.0% level of generation asset divestiture is targeted by the Government. The WESM was declared operational in Luzon on June 23, 2006.

The move towards a more competitive environment could result in the emergence of new and numerous competitors. Some of these competitors may have greater financial resources, more extensive operational experience, and thus be more successful than the Company in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities.

While AP Generation Companies operate mostly hydroelectric plants, most of their competitors operate generation facilities that use fossil fuel, such as coal, natural gas and diesel, which enable them to operate continuously and with greater reliability in terms of delivery of electricity.

The impact of the ongoing restructuring of the Philippine power industry may also affect the Company's financial position, results of operations and cash flows in various ways. For example, the establishment of the WESM, particularly for the Luzon electricity market, has resulted in a more transparent price setting mechanism and has subjected tariffs under existing PPAs to a higher level of public scrutiny. Although distribution companies in the Luzon market (and the Visayas market, upon the launch of WESM in the region) can continue to purchase up to 90.0% of their supply requirements through bilateral contracts with generation facilities, these distribution companies are generally free to purchase electricity from other sources, which provide the most competitive price. As a result, if market-based wholesale prices significantly differ from the prices set forth in the Generation Companies' PPAs, after the expiration of the PPAs, the Generation Companies may be required to review or renegotiate their contractual tariffs downward, thereby adversely affecting the Company's financial position and results of operations.

The Company's acquisition strategy, however, has been been one of prudence and careful selection. The Company bids for generation assets in which it feels it has a competitive advantage over its competitors; either in the form of (a) technical expertise leading to being a low cost producer or (b) the ability to sell the power generated.

The Company maintains technical expertise and advantage in running and building mini-hydros. Such advantage has been built through several years of experience. In plant types where the Company has limited technical expertise, the Company enters into partnerships with entities that possess such expertise, allowing for the transfer of said expertise to the Company.

The Company's geographically scattered distribution business also provides a reliable customer base of approximately 600,000 customers for its Generation Companies. Such customers have been successfully served by the Aboitiz Group for several years, a first contact advantage not enjoyed by other players.

In addition, because of the geographically scattered distribution of its Distribution Companies and Generation Companies, the Company is well below the grid limits restriction provided under EPIRA.

Extreme variations in hydrological conditions can materially and adversely affect the results of operations of the Generation Companies

As of the date of this Prospectus, hydroelectric plants account for approximately 64.0% of the total attributable generation capacity of the Generation Companies. Hydroelectric generation in the regions of the Philippines where the Generation Companies operate vary from period to period, and is dependent on the amount and location of rainfall and river flows in these regions. In years of less favorable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the amount of electricity the Generation Companies' hydroelectric plants generate and sell under their respective PPAs or through the WESM may be reduced.

Hedcor Sibulan is contractually required to supply fixed amounts of electricity under its PSA. Adverse hydrological conditions may affect its ability to meet the requirements of its PSA. Conversely, if hydrological conditions are such that too much rainfall occurs at any one time, water may flow too quickly, at volumes in excess of a particular hydroelectric plant's water intake capacity, which may cause clogged intakes and may result in shutdowns. Any of these events could reduce Hedcor Sibulan's revenues from the sale of electricity, or require Hedcor Sibulan to pay damages to its offtaker. Although, the balance of the Company's contracted Hydroelectric portfolio do not have fixed supply amounts, they are likewise subject to the same abovementioned risk in that revenues are earned solely on what is actually generated.

In relation to the foregoing, the Company's impounding hydroelectric power plants, namely Magat and Ambuklao – Binga have large impounding dams, which allow for the storing of water used for generating electricity. Magat, one of the Company's merchant hydroelectric plants, has the ability to store water equivalent to one month of generating capacity; while Ambuklao – Binga, the Company's other merchant hydroelectric plant, has the ability to store water equivalent to two weeks of generating capacity. This flexibility allows for the generation and sale of electricity at the peak hours of the day and in times of high spot prices and deferment of generation in time of low spot prices.

Historically, there has been an inverse relationship between rainfall and spot prices. In times of high rainfall, prices of electricity drop as expensive fossil fuel supply is displaced by cheaper hydroelectric capacity. This likewise results to higher generation volume for the Company's hydroelectric plants thus protecting the Company's revenue levels. In times of low rainfall, a drop in generation volume is partially offset by higher spot prices, which are in turn brought about by supply served by more expensive fossil fuel-fired plants. As hydroelectric power plants have no fuel costs, EBITDA is protected.

In addition, hydroelectric power plants have no fuel costs and thus, have no marginal costs. Hydroelectric plants can therefore sell at prices below the marginal fuel costs of fossil fuel-fired plants and still generate cash.

Thus, the ability of the merchant hydros to store water, provides the Company with upside by maintaining the flexibility to sell power during high price periods and downside protection in the form of price floors defined by the marginal cost of fossil fuel-fired plants.

Finally, the Philippines, being a tropical country, has regular seasonal rainfall patterns.

Significant and unpredictable price fluctuations in the wholesale power markets and other market factors could have a material and adverse effect on the financial performance of SNAP-Magat and SNAP-Benguet

Power prices are subject to significant volatility from supply and demand imbalances. From the time the WESM for Luzon began operating in June 2006, market prices for electric power have fluctuated substantially.

Long-term and short-term power prices may also fluctuate substantially due to other factors outside of the Company's control, which include the following:

(a) increases and decreases in generation capacity in the Company's markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation plants, expansion of existing plants or additional transmission capacity;

(b) changes in power transmission capacity constraints or fuel transportation inefficiencies;

(c) electric supply disruptions, including plant outages and transmission disruptions;

(d) weather conditions;

(e) changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;

(f) availability of competitively priced alternative power sources;

(g) development of new fuels and new technologies for the production of power;

(h) natural disasters, wars, embargoes, terrorist attacks and other catastrophic events; and

(i) Government power market and environmental regulations and legislation.

These factors have caused and are expected to cause fluctuation or instability in the operating results of the Generation Companies, particularly of SNAP-Magat and SNAP-Benguet, as both companies sell a substantial portion of electricity generated to the WESM and to large end-users.

The volatility of the spot market provides opportunities in terms of price spikes. The supply situation and its reliability in the Philippines is not expected to improve throughout the next three (3) to four (4) years with minimal capacity expected to come on stream and an aging power supply inventory. Compounded with rising demand for power as projected by the DOE, tightness in the market is expected to keep future spot power rates at favourable levels.

From a portfolio perspective, the risk taken in the spot market is balanced off by the capacity fee-based generation assets and distribution business of the Company, which has to a certain extent, predictable returns to the Company.

Magat and Binga, AP's merchant hydroelectric plants, have the ability to store water equivalent to one month and two weeks respectively of generating capacity, allowing for the generation and sale of electricity at the peak hours of the day which command premium prices. The hydroelectric plants' source of upside, water, as a source of fuel and the ability to store it, is also the source of limited downside. Both Magat and Binga have minimal marginal costs granting them competitive advantage in terms of economic dispatch order versus other fuel-fired power plants that have significant marginal cash costs. SNAP-Magat sells most of the electricity generated by the Magat Plant through the WESM. Electricity generated by the Binga hydroelectric plant, is also sold through the WESM.

The Company's ability to increase revenues from power generation depends to a certain extent on the existence of transmission infrastructure with sufficient capacity to transmit the generating capacity of its existing and future power plants

As of the date of this Prospectus, the Philippines' electric transmission infrastructure continues to experience constraints on the amount of electricity that can be transmitted (or "wheeled") from power plants to offtakers. The lack of improvement in transmission infrastructure has primarily been caused by a delay in the privatization of Transco as required under the EPIRA, which in turn has delayed the implementation of projects to be undertaken by Transco, which is responsible for maintaining and ensuring the sufficiency of the power transmission infrastructure in the Philippines. If these transmission constraints continue, the volume of electricity that off-takers, such as NPC, distribution utilities and other

large purchasers, dispatch from independent power producers ("IPPs") could be adversely affected. These transmission constraints could have an impact on some of the Generation Companies' generation facilities, particularly Hedcor's facilities in Northern Luzon and SNAP-Magat and SNAP-Benguet's hydroelectric plant, which are not located near the end-users to whom these companies sell, or plan to sell. Any transmission constraints, therefore, could have an adverse impact on the level of revenues the Company generates from its power generation business.

However, with the successful privatization of Transco in January of 2009, it is expected that the new private owners will make the necessary investments to upgrade the transmission system and infrastructure into a reliable and efficient transmission network.

The failure of the EAUC and CPPC to obtain fuel for their respective plants at commercially reasonable prices may materially increase costs and adversely affect the Company's business.

The operation of EAUC's and CPPC's Bunker C-fired plants is dependent on the availability of Bunker C fuel. Although Bunker C is a commodity and sources of supply are currently available, any shortage in Bunker C, any significant interruption or delay in the supply of Bunker C to the EAUC and CPPC plants or inability of EAUC's or CPPC's suppliers to supply Bunker C in the required amounts or in a timely manner, would affect the ability of EAUC and CPPC to generate sufficient electricity on a timely basis to meet the requirements of their offtakers. In addition, with the current high prices of crude oil and derivative products such as Bunker C, EAUC and CPPC could incur significant costs in obtaining Bunker C supplies. EAUC and CPPC could also incur additional costs in providing their respective offtakers with alternative sources of electricity.

The above fuel supply risk is managed by EAUC and CPPC by entering into medium term contracts only with reputable fuel suppliers. These contracts contain provisions which give assurance of sufficiency of fuel supply – i.e. (i) priority in supply, except only in case a government-mandated allocation is imposed; (ii) minimum inventory provison (equivalent to five [5] days consumption requirement); and (iii) three month schedule of fuel consumption.

In the event of a possible disruption of fuel supply due to bad weather, unavailability of fuel tankers or the like, the fuel contracts provide that EAUC and CPPC can purchase its fuel from other parties and any incremental costs related thereto will be borne by EAUC and CPPC's supplier.

If the reason for the disruption, however, is due to a known massive global shortage of supply, the same may be addressed through the force majeur provisions in EAUC and CPPC's contract with its offtakers.

With the amended contracts, EAUC and CPPC are no longer exposed to risks related to fluctuations in oil prices, as fuel costs have been contracted as a simple pass through in its billing to its customers.

Risks related to Tiwi-MakBan Complex Upon Turn-Over

A portion of Tiwi-MakBan's generation is covered and sold through bilateral contracts. The balance is subject to merchant risks, including both market and spot price risks. The Company, however, endeavors to continue with its aggressive marketing efforts to ensure that the remaining output of Tiwi-MakBan will be covered by bilateral contracts. The remaining uncontracted power will be sold via WESM, where spot prices are expected to remain favorable throughout the next 3-4 years.

As regards to steam supply, it is possible that the steam resource will decline faster than anticipated. It is likewise possible that the steam output will not be as favourable as expected, thereby reducing the capacity of the Tiwi-MakBan plants to generate the expected volume of output. To assist it in its fair assessment of the steam fields, the Company engaged Thermasource, the worldwide leader in geothermal drilling and consulting, as the steam consultants to evaluate the steam resource in preparation for the bid. Based on the study of the consultants, aggressive provisions have been made, taking into account the decline of the resource, which was identified and imputed into all evaluation models and financial forecasts.

The Company believes that the fact that Chevron, the largest producer of geothermal energy in the world, is the steam contractor further mitigates the risks inherent in the supply of steam. Chevron has proven itself capable of managing the resource efficiently, having almost 40 years of experience in developing, operating and maintaining the Tiwi-MakBan steamfields.

Risks Related to the Distribution Companies

Some of the PPAs entered into by the Distribution Companies have "take or pay" provisions, regardless of the level of demand from customers

Under the PPAs between some of the Distribution Companies, and IPPs (such as the Generation Companies) and power suppliers (such as NPC), the Distribution Companies are obligated to take or pay for minimum levels of electric power generated by such power suppliers. These minimum levels are determined by the Distribution Companies based on their expectations and forecasts regarding electric consumption and demand growth within their franchise areas. If the level of electric consumption is below the level forecasted by the Distribution Companies, it is possible that they will have to pay their power suppliers for the contracted level of electric power agreed to in the relevant PPAs, regardless of the sufficiency demand from the Distribution Companies' customers. Although the Distribution Companies are allowed under the terms of their PPAs to on-sell to other buyers the electric power they are unable to sell to customers within their franchise areas, there is no assurance that the Distribution Companies will be able to do so. As a result, if the Distribution Companies are required to pay for a material volume of unsold electric power, it could materially and adversely affect the Company's business, financial conditions and results of operations.

It must be noted, however, that projected demands, which are used as basis for the take or pay provision, are based on inputs and commitments from the Distribution Companies' larger customers, taking into account economic projections. In addition, NPC contracts allow for 20.0% positive variances without penalties.

To mitigate this further, the Distribution Companies in Mindanao have pooled their contracts thereby decreasing the risk of breaching the 20.0% allowable variance of NPC. A similar arrangement is currently being negotiated for the three Visayas-based Distribution Companies of the Company.

The rates that the Distribution Companies are allowed to charge their customers are largely determined by the the ERC

The Distribution Companies are heavily regulated, and the components of the amounts that they are allowed to charge their customers are determined, in large part, by the ERC. The Distribution Companies are routinely involved in proceedings before the ERC, including general rate adjustment cases and those relating to various other aspects of their rates. Decisions made by the ERC could have a material impact on the results of operations, financial condition and liquidity of the Company and the Distribution Companies.

The ERC has issued the Rules for Setting Distribution Wheeling Rates ("RDWR") that sets out the manner in which a new rate-making regulatory mechanism for distribution charges called "performance-based rate-setting regulation" ("PBR") will be implemented. PBR replaces the return-on-rate-base rate-setting system ("RORB") that was previously used to determine distribution charges. Under PBR, the distribution charges that distribution utilities can collect over a four-year regulatory period will be set by reference to projected revenues based on: allowable returns on assets, operating expenses and depreciation for each distribution utility, which are reviewed and approved by the ERC. For each year of the regulatory period, the distribution charges which a distribution utility can collect are adjusted upwards or downwards taking into consideration: changes in the interest rate environment which affect the calculation of allowable returns, the distribution utility's efficiency factor set against certain pre-approved targets, changes in overall consumer prices in the Philippines and foreign exchange movements.

As a result, should the Distribution Companies' projections prove inaccurate, the distribution charges the Distribution Companies collect under PBR, may not be sufficient to allow them to operate efficiently and to fully recover their expenses. Further, in recent years, increases in distribution charges approved by the ERC have been successfully challenged in court, particularly those involving the largest private distribution utility in the Philippines, Manila Electric Company. Distribution utilities have also been required to provide refunds to customers in certain cases. There is no assurance, therefore, that any distribution charges approved by the ERC, whether under PBR or otherwise, will not be contested in and overturned by Philippine courts or that the Distribution Companies will not be required to refund amounts to customers if the increases of distribution charges are overturned. Any of the foregoing events could materially and adversely affect the performance of the Distribution Companies and the Company's business, financial condition and results of operations.

The implementation of the PBR-based rate adjustment formula for the Distribution Companies is on a staggered basis. The ERC has issued its final determination on CLPC's application for approval of its annual revenue requirement and performance incentive scheme under the PBR scheme. This covers the second regulatory 4-year period, which commenced on April 1, 2009.

The ERC conducted public hearings on March 3 and 4, 2009 on CLPC's resulting distribution rate structure. The ERC decision is expected on or before the end of April 2009. CLPC expects to implement the new rate structure on May 1, 2009, which is one month later than the scheduled start of the second regulatory period. Any resulting under- or over-recovery in revenue will be reflected in the correction factor at the next rate application to be implemented in April 2010.

VECO and DLPC entered their respective reset periods in end 2008, and are expected to enter the 4-year regulatory period in 18-24 months thereafter. SFELAPCO and SEZ are part of the fourth batch of private utilities to enter PBR, and are expected to enter their respective 4-year regulatory period by April 1, 2011.

In addition to the annual adjustments described above, PBR allows for rate adjustments in between the re-set periods to address extraordinary circumstances. There is also a mandatory rate-setting every four (4) years wherein possible adjustments to the rate take into account current situations.

The Company's strategy in running its utilities is one of providing world-class service at the least possible cost. Providing value to its customers allows the Company credibility and the ability to successfully implement justified rate increases. This, along with a transparent and open relationship of over 70 years with the regulators, ensures the Company's continued ability to successfully apply and implement rate increases.

The Distribution Companies' business could be adversely affected by potential shortages in the supply of power from generation facilities, volatile markets for purchased power, changes in customer demand or a failure of its suppliers to deliver power

The power distribution business involves many operating risks that can affect the ability of a distribution company to supply electricity to its customers or may increase its costs for an extended period of time to a level that significantly exceed what can be recovered from customers. Factors which could affect the operations of the Distribution Companies or increase their respective costs, including generation costs, include:

(a) depreciation of the Philippine Peso against foreign currencies, such as the U.S. dollar;

(b) below normal energy generated by the Distribution Companies' power suppliers;

(c) extended outages of power suppliers' generating facilities or of the transmission lines that deliver energy to load centers;

(d) failure to perform on the part of any party, from which the Distribution Companies purchase capacity or energy; and

(e) the effects of large-scale natural disasters, including the destruction of distribution facilities and equipment.

Under PBR, distribution tariffs are adjusted annually to account for depreciation of the peso against the US dollar. In addition, PBR allows for rate adjustments in between the re-set periods to address extraordinary circumstances. There is also a mandatory rate-setting every 4 years wherein adjustments to the rate take into account current situations.

In this regard, potential power supply shortages forseen in both the Visayas and Mindanao markets are being addressed by the ongoing Greenfield projects undertaken by the Company. The Company likewise constantly monitors the supply situation in order to address potential shortfall problems before they can actually impact the distribution companies.

In addition, some of the Distribution Companies have alternative sources of supply. VECO has existing PPAs with Cebu-based IPP's other than NPC (i.e. TPC, CPPC and EAUC), while DLPC and CLPC have their own back-up power plants. These alternative sources of supply are imbedded into the utilities' franchise areas thus bypassing transmission lines, further providing a hedge against the risk of disruptions in the transmission grid.

The ability of Philippine consumers to absorb increased electricity costs may be limited

According to the National Statistical Coordination Board of the Philippines, the Philippines' nominal GDP per capita in 2007 was approximately ₱74,981. Although Distribution Companies are currently able to automatically pass on all of their generation costs to their customers, generation costs may rise to levels that the average Philippine consumer may not be able to absorb. Continued increases in electricity costs could result from, among other things, fluctuations in the exchange rate between the peso and foreign currencies such as the U.S. Dollar, shortages in the supply of electricity and other inflationary pressures. This may result in customers reducing their electricity consumption or in an increase in illegal connections or pilferage, any of which could materially and adversely affect the Company's business, financial condition and results of operations.

Electricity demand is inelastic at certain levels wherein essential appliances and industries need to operate. In addition, the present and future ratemaking structures allow recovery of expenses and capital in negative and low growth scenarios. Lastly, the Distribution Companies maintain constantly evolving anti-pilferage programs.

If the Distribution Companies' electricity losses exceed Government-mandated caps, their results of operations could be adversely affected

The Distribution Companies experience two types of electricity losses: technical losses and non-technical losses. Technical losses are losses that occur in the ordinary course of distributing and transmitting electricity. Non-technical losses are losses that result from illegal connections, inaccurate meters, fraud and underbilling. RA No. 7832 (or the "Anti-Electricity and Electric Transmission Lines/Materials Pilferage Act of 1994") sets the system loss caps for distribution utilities and electric cooperatives. Pursuant to this law, the ERC allowed distribution utilities to charge customers for electricity losses, as long as electricity losses do not exceed 9.50% of the total electricity distributed by these distribution utilities. In excess of the 9.50% ceiling, distribution utilities can no longer pass on to customers costs relating to electricity losses. The ERC recently adopted Resolution No. 17, Series of 2008 dated December 8, 2008, lowering the allowable system loss caps of distribution utilities to 8.50%.

The following summarizes the electric losses of the Distribution Companies in 2007 and for 2008.

Systems Loss

	DLPC	CLPC	VECO	SFELAPCO	SEZ	MEZ	BEZ
2008	7.90%	10.85%	9.53%	6.13%	2.15%	1.27%	1.48%
2007	8.13%	10.31%	9.52%	6.03%	3.57%	3.00%	0.60%

The Distribution Companies, however, are continuously looking at reducing both technical and non-technical loss by improving efficiency and enhancing anti-pilferage programs.

The franchises of the Distribution Companies are subject to renewal at the discretion of the Philippine Congress. In the event of breach of the terms and conditions of the franchise, the Distribution Companies are exposed to risk of penalty, fines, and depending on the gravity of breach, the termination of such franchise

Each of the Distribution Companies carries out its power distribution activities pursuant to a franchise granted by the Government. Each franchise sets forth certain terms and conditions which the relevant Distribution Company must comply with in order to maintain its franchise. The Government has the power to terminate any of these franchises prior to the end of the franchise term in case of bankruptcy or dissolution of the relevant Distribution Company, or by means of expropriation for reasons related to the public interest.

These franchises are granted for 25-year periods, with the Distibution Companies' franchise periods ranging from 2011 (for SFELAPCO) to 2028 (for VECO). Under Philippine law, the franchises of the Distribution Companies may be renewed by the Philippine Congress, provided that certain requirements related to the rendering of public services are met.

The Company believes that each of the Distribution Companies is currently in compliance with all of the material terms of its respective franchise. However, the Company cannot provide any assurance that any, some or all of the Distribution Companies will not be penalized by the Government for breaching the terms of their respective franchises or that any, some or all of these franchises will not be terminated in the future. In addition, although the Government is required under the Philippine Constitution to provide "just compensation" in the event of an expropriation, the determination of what constitutes just compensation is subject to judicial discretion, which amount may not be sufficient for Distribution Companies to realize the full value of their assets. Further, if any of the franchises is terminated for reasons attributable to a Distribution Company, the effective amount of compensation (if any) from the Government could be materially reduced through the imposition of fines or other penalties. Finally, although the Company intends to apply for the extension or renewal of each franchise upon its expiration, there can be no assurance that the Philippine Congress will act favorably on the Company's requests to extend or renew any or all of these franchises. In addition, the Company may also face competition from third parties in connection with the renewal of these franchises.

The foregoing risks notwithstanding, it must be noted that the Distribution Companies are managed using or applying world-class standards. Each of the Distribution Companies is focused on providing the best possible service at the lowest possible cost. With this service level promise constantly delivered, the Government cannot revoke or refuse to renew, as it is not likely to revoke and refuse to renew, a franchise without justifiable cause. Due to its track record of satisfying the requirements and conditions imposed by regulations and the terms of its franchises, the Company has maintained very good working relationship with regulatory and government agencies tasked with the renewal and maintenance of franchises. To date, all of the franchises of the Distributions Companies, which were due for renewal, had been effectively renewed and no franchise held by the Distribution Companies has ever been revoked.

RISKS RELATED TO THE COMPANY'S GROWTH

The Company may not successfully implement its growth strategy

The implementation of the Company's growth strategy may involve: (i) entering into new strategic alliances and partnerships; (ii) substantial investments in new power generation, subtransmission and distribution facilities; (iii) acquisitions of power generation facilities and distribution utilities; and (iv) managing distribution systems in special economic zones. The Company's success in implementing this strategy will depend on, among other things, its ability to identify and assess potential partners, investments and acquisitions, successfully finance, close and integrate such investments and acquisitions, control costs and maintain sufficient operational and financial controls. Historically, the expansion of the Company's business has not resulted in a commensurate increase in the senior management and officers and, as a result, the Company's growth strategy has placed and will continue to place significant demands on the Company's management and other resources, particularly because the Company's power generation and distribution businesses are located in disparate and geographically diverse locations. The Company's future growth may be adversely affected if it is unable to make these investments or pursue these acquisitions, or if these investments and acquisitions prove unsuccessful.

Despite the foregoing, it is worthy to note that APRI, a wholly-owned subsidiary of the Company, was successful in its bid for the purchase of the Tiwi-MakBan Geothermal Complex, which is expected to be turned over to APRI by second quarter of 2009. Furthermore, several Greenfield projects, which are part of the growth strategy, are already under way. The 42 MW hydropower plant of Hedcor Sibulan is expected to be completed by the end of 2009, while the 26.4%-owned 3 X 82 MW coal fired power plant of CEDC is expected to be completed by the second half of 2010. All of these growth vehicles are expected to almost double the Company's attributable capacity from 578 MW by end of 2008 to 1,161 MW by 2010.

A program seeking and hiring the appropriate expertise to build and manage these expansions is currently underway and significantly completed.

Failure to obtain financing or the inability to obtain financing on reasonable terms could affect the execution of the Company's growth strategies

Although the Company has been able to obtain financing at acceptable rates in the past, there is no assurance that the Company will be able to obtain sufficient funds at acceptable rates, if at all, as a source of funding for new projects and acquisitions, and to complete its capital expenditure program or satisfy its other liquidity and capital resources requirements. The inability of the Company to obtain debt financing from banks and other financial institutions would adversely affect its ability to execute its growth strategies.

There are, however, other options available to the Company in addition to financing from banks and other financial institutions. For instance, in the case of Tiwi-MakBan and all other assets which are being privatized by PSALM, staple financing for a term of seven (7) years is made available. In addition, most of the other on-going Greenfield projects already have financing in place. Hedcor Sibulan has already signed a project finance loan and CEDC is expected to sign a project finance loan within the first half of 2009.

It is worthy to note likewise that the Company has just raised ₱3.89 billion, through a privately-placed fixed rate note offering in December 2008. Buoyed by hefty dividend flow from Subsidiaries and successful IPO in 2007, which raised ₱10 billion in capital, the consolidated cash balance as of December 31, 2008 was at approximately ₱14.9 billion.

Thus, to a large extent, financing for current growth plans is adequately funded.

The Company may have disagreements with its partners for certain of the Generation Companies and Distribution Companies

The Company does not beneficially own a majority of the ownership interests in LHC, SNAP-Magat and SNAP-Benguet, STEAG, EAUC, SPPC, WMPC and SFELAPCO. Further, although the Company controls the day-to-day operations of VECO, it does not have majority representation on VECO's board of directors. See "*The Company*" on page **Error! Bookmark not defined.** and "*Material and Other Contracts in the Ordinary Course of Business*" on page **Error! Bookmark not defined.**. Although the Company exerts a degree of influence with respect to the management and operation of these companies, having negotiated agreements with its partners that provide the Company certain rights, such as requiring the affirmative vote of the Company for significant corporate actions, the success and effective operation of these companies requires cooperation and coordination between the Company and its partners.

To the extent that there are disagreements between the Company and its partners regarding the business and operations of each such company, the Company cannot provide any assurance that it will be able to resolve them in a manner that will be in the Company's best interests.

If disputes occur between the Company and any of its partners, and the disputes remain unresolved for a prolonged period of time, the Company could incur significant costs and require significant amount of management time. The unresolved dispute could likewise result in the termination of the Company's agreements with its partners, which would in turn adversely affect the Company's business, financial condition and results of operations.

To avoid the foregoing, shareholder agreements have been put in place to clearly define the procedures to be taken to manage the dispute.

The operation of power generation and distribution facilities is subject to many hazards and the Company may not be able to obtain or maintain adequate insurance which may have a material adverse effect on the Company's business, financial condition and results of operations

The generation and distribution of electricity involves many significant hazards that could result in fires, explosions, spills, discharge, leaks, release of hazardous materials, and other unexpected or dangerous conditions, accidents and environmental risks. In addition, many of these events may cause personal injury and loss of life, severe damage to or destruction of the Company's properties and the properties of others and environmental pollution, and may result in suspension of operations and the imposition of civil or criminal penalties. The risk of occurrence of any of the foregoing events is particularly higher in connection with operation of the Company's Bunker C-fired plants, which require the use and storage of flammable fuel. Among other risks, spills and other discharges of the fuel used to operate the Company's Bunker C-fired plants could result in significant environmental damage to immediately surrounding areas and, as a result, significant liability to both the Government and to private parties.

Any significant interruption to the Company's operations resulting from the occurrence of such hazards or from severe weather and natural disasters, such as earthquakes, floods and typhoons, could materially and adversely affect the Company's business, financial condition and results of operations. Additionally, as the Company's operating assets are located in the Philippines, there could be risks of terrorist attacks on these assets. While no such major events have occurred, there can be no assurance that such accidents, events or natural disasters will not occur in the future and that if they do occur, that the Company's power generation, transmission and distribution facilities would not be materially and adversely impacted. Power generation facilities are also subject to mechanical failure and equipment shutdowns. In such situations, undamaged units may be dependent on or interact with damaged sections or units and, accordingly, are also subject to being shut down. If such events occur, the ability of the Generation Companies to supply electricity to their respective offtakers may be materially and adversely impacted. In the event any power generation facility is significantly damaged or forced to shut down for a significant period of time, it would have a material adverse effect on the Company's business, financial conditions and results of operation.

Although the Generation Companies and the Distribution Companies maintain insurance against many of these hazards, they do not insure against all of them. If any of the Company's power generation and distribution facilities suffer a large uninsured loss or any insured loss suffered significantly exceeds available insurance coverage, the Company's business, financial condition and results of operations may be adversely affected.

In addition, the insurance coverage for the Company's facilities is subject to periodic renewal. Numerous factors outside the Company's control can affect market conditions, which in turn can affect the availability of insurance coverage as well as premium levels for the policies. The Company's insurance coverage is also subject to certain exclusions, limitations and deductibles. If the availability of insurance coverage is reduced significantly, the Company may become exposed to certain risks for which they are not and/or could not be insured. Also, if premium levels for the insurance coverage required for these facilities increase significantly, the Company could incur substantially higher costs for such coverage or may decide to reduce the coverage amount, either of which could have an adverse effect on its financial condition and results of operations.

For more information on the insurance coverage for the Company's facilities, see the section of this Prospectus entitled "*Business — Insurance*" on page **Error! Bookmark not defined.**.

Construction and expansion of the Company's electricity generation and distribution facilities and equipment involve significant risks that could lead to increased expenses and lost revenues.

The construction, expansion and operation of facilities and equipment for the generation and distribution of electricity involve many risks, including:

- the breakdown or failure of power generation equipment and distribution lines or other equipment or processes;
- the inability to obtain required governmental permits and approvals, such as those required for Greenfield projects;
- the inability to obtain land required for generation or distribution facilities or equipment or, in the case of generation facilities or equipment, rights-of-way over land, particularly for Greenfield projects;
- work stoppages and other industrial actions by employees;
- opposition from local communities and special-interest groups;
- social unrest and terrorism;
- engineering and environmental problems;
- construction and operational delays; and
- unanticipated cost overruns.

If the Company experiences any of these or other problems, it may not be able to generate, sell or distribute electricity profitably or at all, which would have an adverse effect on the Company's business, financial condition and results of operations.

It is the Company's policy to obtain insurance coverage for its projects, as may be necessary, in line with industry standards and good business practices. The Company endeavors to protect itself against identified risk that are not fully borne by other parties either through the purchase of construction all risk insurance and/or a contractors insurance whose costs are normally borne by the suppliers.

For more information on the insurance coverage for project specific coverages, see the section of this Prospectus entitled "*Business — Insurance*" on page **Error! Bookmark not defined.**.

Notwithstanding the fact that the Company has covered its risks with insurance, the Company also consistently engages the services of experienced and reputable contractors and consultants such as VA

Tech Hydro GmbH and Formosa Heavy Industries to better ensure ontime and on budget completion of its projects.

In recent years, amendments to the EPIRA have been proposed that, if enacted, could have a material adverse effect on the Company's business, financial condition and results of operations

Since the enactment of the EPIRA in 2001, members of the Philippine Senate and House of Representatives have proposed amendments to the EPIRA. These proposed amendments have included the following:

(a) Cross-ownership among distribution utilities and generation companies will no longer be allowed. If this proposal becomes law, the Company may be required to divest its interests in either the Distribution Companies or the Generation Companies;

(b) Restrictions on the amount of electric power that a distribution utility can source from a single generation company or from generation companies wholly-owned or controlled by the same interests. If this restriction is enacted into law, generation facilities acquired or developed by the Company in the Visayas or Mindanao Grids may be unable to enter into offtake agreements with VECO and DLPC, two of the largest distribution utilities operating in the Visayas region and Mindanao island, respectively;

(c) Stranded Costs charged by distribution utilities, which are contracted costs for electricity in excess of the actual market selling price to customers, will be recoverable only if such costs are deemed "fair and reasonable." To the extent that the Distribution Companies' Stranded Costs are not deemed fair and reasonable by the ERC, their financial condition and results of operations could be materially and adversely affected.

The Company cannot provide any assurance whether the proposed amendments to the EPIRA described above will continue to be pursued. Proposed amendments to the EPIRA, including those discussed above, as well as other legislation or regulation could have a material adverse impact on the Company's business, financial condition and results of operations.

The enactment of the proposed amendments is not within the Company's control. However, it is the policy of the Company to participate, as much as practicable, in the formulation of the policies relating to the energy sector. As in the past, the Company will continue to participate in consultation exercises and join other players in the energy sector, whenever appropriate, in lobbying for fair and favorable terms for the Company and other similarly situated entities.

Enactment of proposed amendments notwithstanding, it must be noted that the Company is still far from reaching the proposed restrictions, with allowable room to grow the generation business and still sell to the Distribution Companies. Currently the total electricity purchased by the Distribution Companies from the Generation Companies does not exceed ten percent (10.0%) of its total purchased power, significantly lower than the EPIRA mandated cap of fifty percent (50.0%).

Legal Proceedings and Other Matters

The Company and its subsidiaries are parties to various pending legal proceedings and disagreements on certain contractual issues. Any adverse rulings or decisions in any of these proceedings or disagreements on these contractual issues may have a material impact on the Company's businesses. (See "*Certain Legal Proceedings*" on page 135 and "*Material and Other Contracts in the Ordinary Course of Business*" on page **Error! Bookmark not defined.**). The Company intends to diligently pursue and exhaust all legal remedies available to it in the event of any adverse ruling or decision in any of these proceedings.

The Company is highly dependent on certain directors and members of senior management

The Company's directors and members of its senior management have been an integral part of its success. The experience, knowledge, business relationships and expertise of such persons are key in the Company's operating efficiency and financial performance and are difficult to replace. Directors and senior officers of ACO and AEV also fill certain key executive positions and the Company may not be successful in attracting and retaining executive talent to replace these directors and officers should they depart. If the Company loses the services of any such person and is unable to fill any vacant key executive or management positions with qualified candidates, its business and results of operations may be adversely affected.

Since it was incorporated, the Company however, has experienced a fairly low turnover rate among its group of senior officers, executives and management team. In recent years, the Company has promptly instituted a talent management program designed to actively identify, track, develop and ensure talent retention, especially in critical positions. A succession planning program is also in place, which allows the Company to secure business continuity by carefully studying career paths of the members of the management team and the depth of bench for senior level positions, and identifying and developing possible replacements as well as the next generation leaders.

The Company has a number of related-party transactions with affiliated companies

The Company has a number of related party transactions with affiliated companies. These transactions are included among those described in the section of this Prospectus entitled "*The Company – Transactions With and/or Dependence on Related Parties*" on page **Error! Bookmark not defined.** and in the notes to the Company's financial statements appearing elsewhere in this Prospectus. The Company's practice has been to enter into contracts with these Affiliate companies on commercial terms, which are at least as favorable as the terms available to or from non-affiliated parties.

The Company expects that it will continue to enter into transactions with companies directly or indirectly Controlled by, or associated with, ACO and AEV. These transactions may involve potential conflicts of interest, which could be detrimental to the Company and/or its shareholders.

All related-party transactions thus entered into by the Company are fully and properly documented. All have commercial terms based on market conditions and were entered into at arms-length.

Continued compliance with, and any changes in, safety, health and environmental laws and regulations may adversely affect the Company's results of operations and financial condition

The operation of the Company's existing and future power generation facilities and its power distribution systems are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of fuel, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. The Company has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Company has made and expects to continue to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause the Company to be liable to third parties, the Philippine government or to the local government units with jurisdiction over the areas where the Company's facilities are located. The Company may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

There is no assurance that the Company will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Clean-up and remediation costs of the sites in which its facilities are located and related litigation could materially and adversely affect the Company's cash flow, results of operations and financial condition.

It is the policy of the Company to comply with existing environmental laws and regulations.

The Company is exposed to foreign exchange risk. Fluctuations in the exchange rate between the peso and foreign currencies, such as the U.S. dollar, could have a material adverse effect on the Company's business, financial condition and results of operations

The Company currently maintains its accounting records and prepares its financial statements in Philippine Pesos. The revenues of the Distribution Companies and SNAP-Magat and SNAP-Benguet are denominated in Philippine Pesos. However, the reporting currency of some of the Generation Companies is the U.S. dollars. Any appreciation or depreciation of the Philippine Peso particularly with respect to the U.S. dollar could result in foreign exchange translation gains or losses on these companies' revenues and expenses currently recorded as part of the Company's income statement. In addition, portions of the long-term debt of SNAP-Magat and SNAP-Benguet and VECO are, or is expected to be, denominated in foreign currencies such as the U.S. dollar and the Japanese Yen. A depreciation of the Philippine Peso particularly with respect to the U.S. dollar could adversely affect the ability of SNAP-Magat to service its foreign currency-denominated debt. Further, although ERC rules currently allow VECO to automatically adjust the rates it charges customers to offset the fluctuations of the Peso in relation to VECO's foreign currency denominated loans, there is no guarantee that the ERC will continue to allow VECO to do so in the future, which could affect VECO's ability to service its foreign currency-denominated debt.

The Company also purchases parts and equipment for its generation facilities and for its distribution facilities using U.S. dollars and other foreign currencies. A depreciation of the Philippine Peso particularly with respect to the U.S. dollar increases the Peso equivalent value of these foreign currency-denominated costs and may adversely affect the Company's results of operations.

Generally, however, operating subsidiaries match currency of revenues with currency of liabilities. An exception was made with SNAP-Magat and SNAP-Benguet in which revenues although in Philippine Pesos are partially affected by the U.S. dollar (spot prices are affected by coal and oil costs, which are directly correlated to the U.S. dollar–Philippine Peso movements. Thus both companies keep 40.0% of debt in U.S. dollar to hedge against the effects of movements in the U.S. dollar on revenues.

It is likewise with the foreign exchange risks in mind, relating to the cost of parts and equipment that certain Generation Companies negotiated for a portion of their capacity fees to be in U.S. Dollars or sensitized to the movements of the U.S. dollar and inflation. This set up means that an increase or decrease in revenues resulting from the contract formulas based on the movements of the U.S. Dollar is correspondingly offset by a corresponding increase/decrease in the cost of materials.

Under PBR, annual inflation and currency adjustments are allowed to compensate for detrimental movements. Thus, distribution utilities can recover adverse currency and inflationary movements on an annual basis.

RISKS RELATED TO THE PHILIPPINES

A slowdown in the Philippines' economic growth could adversely affect the Company

Historically, results of operations have been influenced, and will continue to be influenced, to a significant degree by the general state of the Philippine economy, with demand for power historically being tied to the level of economic activity in the Philippines. As a result, the Company's income and results of operations depend, to a significant extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the peso and the imposition of exchange controls.

From mid-1997 to 1999, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the Philippine Peso, increases in interest rates, increased volatility and the downgrading of the Philippine local currency rating and the ratings outlook for the Philippine banking sector. These factors had a material adverse impact on the ability of many Philippine companies to meet their debt-servicing obligations. While the Philippine economy has generally registered positive economic growth in the period since 1999, it continues to face a significant budget deficit, limited foreign currency reserves, a volatile peso exchange rate and a relatively weak banking sector. Real GDP rose by 5.4% in 2006, versus a growth of 4.9% in 2005. In 2007, GDP increased by 7.3%, the fastest in three decades, due to the robust performance of the industrial and services sector. While the Philippine economy performed well in 2007, macroeconomic conditions significantly changed in the first half of 2008. Inflation rate in the first six months of 2008 rose to an average of 7.6%, compared to an annual average of 3.0% in 2007. With increasing food and energy prices, the Government is forecasting a lower GDP growth of 5.7-6.5% in 2008.

Fitch Ratings ("Fitch") has assigned a long-term foreign currency debt rating to the Philippines of "BB" (two notches below investment grade), Standard & Poor's ("S&P") has assigned a "BB-" (three notches below investment grade) rating and Moody's Investors Service ("Moody's") has assigned a "B1" (four notches below investment grade) rating to the Philippines. In late January 2008, Moody's changed its ratings outlook for the Philippines from "stable" to "positive", citing progress in stabilizing public sector finances and a lessening dependence on external finances.

Recently, global developments have also affected the Philippine financial markets. The United States is a major trading partner of the Philippines, and it is likely that the slowdown in the US economy may adversely affect the Philippine economy. Recent events have already affected the Philippine stock market, as well as the debt capital market. It is not certain how the global events will impact the Philippines in the long run.

Any deterioration in the Philippine economy may adversely affect consumer sentiment and lead to a reduction in demand for the Company's products. There is no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

Historically, the demand for power for the past ten (10) years has been increasing on an average rate of 4.9%. This has been despite the volatility in the economic, financial, and political conditions of the country. It may be attributable to the inelasticity of electricity at certain levels wherein essential appliances and industries need to operate. The rising population and remittances from overseas workers will likewise provide a minimum growth in the demand for power.

Any political instability in the Philippines may adversely affect the Company

The Philippines has from time to time experienced political, social and military instability. No assurance can be given that the political environment in the Philippines will stabilize. In 2010, the Philippines will hold its next presidential elections.

RISKS RELATED TO THE OFFER

Liquidity Risk

The Philippine securities markets are substantially smaller, less liquid, and more concentrated than major global securities markets. As such, the Company cannot guarantee that the market for the Bonds will always be active or liquid. Even if the Bonds are listed on the PDEx, trading in securities such as the Bonds, may sometimes be subject to extreme volatility in response to interest rates, developments in local and international capital markets and the overall market for debt securities and other factors. There is no assurance the Bonds may be disposed at prices, volumes or at times deemed appropriate by the Bondholders.

Reinvestment Risk

On the twelfth (12th) Interest Payment Date, the Company has the right to repurchase all, but not part, of the Bonds outstanding at such time under applicable terms and conditions (see "*Description and Terms and Conditions of the Bonds – Optional Redemption*" on page 49). In the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

Pricing Risk

The Bond's market value moves (either up or down) depending on the change in interest rates. The Bonds when sold in the secondary market are worth more if interest rates decrease since the Bonds have a higher interest rate relative to the market. Conversely if prevailing interest rate increases the Bonds are worth less when sold in the secondary market. Therefore, an investor faces possible loss if he decides to sell.

Retention of Ratings Risk

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization. There is no assurance that the rating will be maintained throughout the life of the Bonds.

Bonds have no Preference under Article 2244(14) of the Civil Code

No other loan or debt facility currently or to be entered into by the Issuer is notarized, such that no other loan or debt facility to which the Issuer is a party shall have preference of priority over the Bonds as accorded to public instruments under Article 2244(14) fo the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities have waived the right to the benefit of any such preference or priority. However, should any bank or Bondholder hereinafter have a preference or priority over the Bonds as a result of notarization, then the Issuer shall at the Issuer's option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds.

USE OF PROCEEDS

The Issue Price shall be at par, which is equal to the face value of the Bonds. AP expects that the net proceeds of the Offer shall amount to approximately ₱1,477,186,875.00 for a ₱1,500,000,000.00 Issue size, or approximately ₱2,960,686,875.00 for a ₱3,000,000,000.00 Issue size should the Company exercise in full its Oversubscription Option after fees, commissions and expenses.

For a ₱1,500,000,000.00 Issue Size

		Total
Estimated proceeds from the sale of Bonds		₱1,500,000,000.00
Less: Estimated Expenses		
SEC Registration		
SEC Registration Fee	₱1,312,500.00	
SEC Legal Research Fee	13,125.00	
Publication Fee	100,000.00	
Documentary Stamp Tax	7,500,000.00	
Underwriting & Other Professional Fees		
Underwriting Fee	9,000,000.00	
Legal Fee – Joint Lead Managers	800,000.00	
Rating Fees	3,360,000.00	
Listing Application Fee [1]		
Costs of Printing	300,000.00	
Trustee Fees [2]	50,000.00	
Paying Agency and Registry Fees [3]	127,500.00	
Miscellaneous Fees	250,000.00	
Estimated net proceeds to AP for ₱1,500,000,000.00 Issue		**₱1,477,186,875.00**

For a ₱1,500,000,000.00 Oversubscription Option

		Total
Estimated proceeds from the Oversubscription Option		₱1,500,000,000.00
Less: Estimated Incremental Expenses		
Documentary Stamp Tax	₱7,500,000.00	
Underwriting Fees	9,000,000.00	
Estimated net proceeds to AP for ₱1,500,000,000.00 Oversubscription Option		**₱1,483,500,000.00**

Aside from the foregoing one time costs, AP expects the following annual expenses related to the Bonds:

1. Aside from the Listing Application Fee, the Issuer will be charged the first year annual maintenance fee in advance upon the approval of the Listing;

2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱100,000.00 per annum; and

3. After the Issue, a Paying Agency fee amounting to ₱10,000.00 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Bonds and the number of Bondholders.

A material amount of the proceeds will not be used to discharge debt.

Proceeds from the Offer will be used to partially finance the US$178 million downpayment of the Company's acquisition (through its wholly owned subsidiary APRI) of Tiwi-MakBan. The downpayment, which is equivalent to forty percent (40.0%) of the purchase price of US$447 million, is due on closing date of the Asset Purchase Agreement (APA) with PSALM, which is expected to occur on May 25, 2009. The Company will source the balance of the downpayment requirement from a combination of internally generated funds, the proceeds of the Company's corporate notes offer last December 2008 and short-term credit line already drawn.

See *"The Company – Corporate History and Structure – Generation of Electricity"* on page **Error! Bookmark not defined.**.

Under the APA, the sixty percent (60.0%) balance of the purchase price may be paid to PSALM via deferred payment over a period of seven years. However, as with the Company's other asset purchase with PSALM, APRI has the option to have the 60.0% balance refinanced by financial institutions.

Summary of the Payment Terms of the Tiwi-MakBan APA:

Total Bid Price	US$447,000,000
40.0% Upfront payment from AP through APRI on closing date of the APA	US$178,800,000
Balance through staple financing payable over 14 equal semi-annual payments over a period of seven years	US$268,200,000

DETERMINATION OF THE OFFERING PRICE

Each series of the Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

PLAN OF DISTRIBUTION

AP plans to issue the Bonds in two (2) series to institutional and retail investors through a public offering to be conducted through the Joint Lead Managers.

JOINT LEAD MANAGERS

BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation and ING Bank N.V., Manila Branch, as Joint Lead Managers, have agreed to distribute and sell the Bonds at the Issue Price, pursuant to an Underwriting Agreement entered into with AP on April 13, 2009 (the "Underwriting Agreement"). Each Joint Lead Manager has committed severally to underwrite the Offer up to the amount of ₱1.5 billion or for a total firm underwriting commitment of ₱1.5 billion. There is no arrangement for any of the Joint Lead Managers to put back to the Issuer any unsold Bonds.

The Joint Lead Managers will receive a fee of 0.60% of the gross proceeds of the Offer. Such fee shall be inclusive of underwriting and participation commissions. The underwriting fees and/or selling commissions due to the Joint Lead Managers and any participating Joint Lead Managers shall be due and payable by the Issuer within two (2) Banking Days after Issue Date. All the foregoing fees, together with any applicable Gross Receipts Tax or its equivalent, are net of any applicable withholding tax arising in respect of such fees. Although the Joint Lead Managers are authorized to organize a syndicate of sub-underwriters, soliciting dealers and/or selling agents for the purpose of the Offer, AP has no obligation to any member of such syndicate for the payment of any fee, underwriting or participating commissions.

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to AP of the net proceeds of the Bonds. The Joint Lead Managers are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Lead Managers may, from time to time, engage in transactions with and perform services in the ordinary course of business for AP or any of its subsidiaries. The Joint Lead Managers have no direct relations with AP in terms of ownership by either of their respective major stockholder/s, and have no right to designate or nominate any member of the Board of Directors of AP.

BDO Capital & Investment Corporation ("BDO Capital") is the wholly owned investment-banking subsidiary of Banco de Oro Unibank, Inc. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999.

BPI Capital Corporation ("BPI Capital") is the wholly owned investment bank subsidiary of Bank of the Philippine Islands. BPI Capital is an investment house focused on corporate finance and securities distribution business. It began operations as an investment house in December 1994. BPI Capital Corporation has an investment house license.

ING Bank N.V. ("ING") is a corporation duly organized and validly existing under and by virtue of the laws of The Kingdom of The Netherlands. The Philippine branch of ING is authorized to operate as a universal bank by the BSP. Over its 18-year presence in the Philippines, ING has built a solid and well-balanced track record in Philippine capital market transactions. ING is a leading bookrunner in the local debt capital market, with a notable record of accomplishment in both public offerings and private placements of financial securities.

First Metro Investment Corporation ("First Metro Investment") is the publicly-listed investment banking arm of Metropolitan Bank and Trust Company. Incorporated in 1972, First Metro Investment is engaged primarily in equity and debt underwriting, project finance, financial and investment advisory, loan syndication, private equity, government and fixed income securities trading and stock brokerage.

The following includes a summary of certain provisions of the Underwriting Agreement entered into by the Issuer and the Joint Lead Managers. This summary does not purport to be complete and is qualified in its entirety by reference to the Underwriting Agreement.

SALE AND DISTRIBUTION

The distribution and sale of the Bonds shall be undertaken by the Joint Lead Managers who shall sell and distribute the Bonds to third party buyers/investors. The Joint Lead Managers are authorized to organize a syndicate of sub-underwriters, soliciting dealers and/or selling agents for the purpose of the Offer; provided, however, that the Joint Lead Managers shall remain solely responsible to the Issuer in respect of its obligations under the Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the Joint Lead Managers with such other parties. Nothing herein shall limit the rights of the Joint Lead Managers from purchasing the Bonds for their respective accounts.

TERM OF APPOINTMENT

The engagement of the Joint Lead Managers shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement. The obligations of each Joint Lead Manager will be several, and not joint and solidary with the other Joint Lead Managers, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between or among any of the parties therein. Unless otherwise expressly provided in the Underwriting Agreement, the failure by any Joint Lead Manager to carry out its obligations shall not relieve any other Joint Lead Manager of its obligations thereunder, nor shall any Joint Lead Manager be responsible for the obligations of any other Joint Lead Managerr thereunder.

MANNER OF DISTRIBUTION

The Joint Lead Managers shall, at their discretion but with written notice to AP, determine the manner by which proposals for subscriptions to, and issuances of, Bonds shall be solicited, with the primary sale of Bonds to be effected only through the Joint Lead Managers.

OFFER PERIOD

The Offer Period shall commence on April 15, 2009 and end on April 24, 2009.

APPLICATION TO PURCHASE

All applications to purchase the Bonds shall be evidenced by a duly completed and signed Application to Purchase, together with two (2) fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Bonds applied for, by check or by appropriate payment instruction, and the required documents which must be submitted to the relevant Joint Lead Manager.

Corporate and institutional purchasers must also submit a certified true copy of SEC Certificate of Registration, Articles of Incorporation and By-laws or such other relevant organizational or charter documents, and the duly notarized certificate of the Corporate Secretary attesting to the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory/ies therefore, including his or her specimen signature. Individual Applicants must also submit a photocopy of any one of the following identification cards (''ID''): passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank, which must be valid as of the date of the Application.

An Applicant who is exempt from or is not subject to withholding tax, or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Lead Manager (together with their applications) who shall then forward the same to the Registrar, subject to

acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the Applicant as certified by its duly authorized officer; (ii) with respect to tax treaty relief, proofs to support applicability of reduced tax rates, proof of tax domicile issued by the relevant tax authority of the Bondholder duly authenticated by a Philippine consul, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines; (iii) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Issuer, of any suspension or revocation of its tax-exempt status and agreeing to indemnify and hold the Issuer, the Registrar and Paying Agent free and harmless against any tax assessment claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Managers prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Lead Managers. Acceptance by the Joint Lead Managers of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by AP and the relevant Joint Lead Manager. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically cancelled and any prior acceptance of the Application to Purchase is deemed revoked.

MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

ALLOTMENT OF THE BONDS

If the Bonds are insufficient to satisfly all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice subject to AP's exercise of its right of rejection.

ACCEPTANCE OF APPLICATIONS

AP and the Joint Lead Managers reserve the right to accept or reject applications to subscribe in the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate. If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Joint Lead Manager.

REFUNDS

In the event an Application is rejected or the amount of Bonds applied for is scaled down, the relevant Joint Lead Manager, upon receipt of such rejected and/or scaled down applications, shall notify the Applicant concerned that his application has been rejected or the amount of Bonds applied for is scaled down, and refund the amount paid by the Applicant with no interest thereon. With respect to an Applicant whose application was rejected, refund shall be made by the concerned Joint Lead Manager by making the check payment of the Applicant concerned available for his retrieval. With respect to an Applicant whose application has been scaled down, refund shall be made by the issuance by the concerned Joint Lead Manager of its own check payable to the order of the Applicant and crossed ''Payees' Account Only'' corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the Applicant concerned at the office of the concerned Joint Lead Manager to whom the rejected or scaled down Application was submitted within ten (10) Banking Days after the last day of the Offer Period. The Issuer shall not be liable in any manner to the Applicant for any check payment corresponding to any rejected or scaled-down application which is not returned by the relevant

Joint Lead Manager; in which case, the relevant Joint Lead Manager shall be responsible directly to the Applicant for the return of the check or otherwise the refund of the payment.

SECONDARY MARKET

AP intends to list the Bonds in the PDEx. AP may purchase the Bonds at any time, in the open market or by tender or by contract at any price, without any obligation to make pro rata purchases of Bonds from all Bondholders.

REGISTRY OF BONDHOLDERS

The Bonds shall be issued in scripless form and will be eligible for trading under the scripless book-entry system of PDTC. Master Certificates of Indebtedness representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Registry Book (the "Registry Book") to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time. AP will cause the Registry Book to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Registry Book.

DESCRIPTION AND TERMS AND CONDITIONS OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of the Company, the information contained in this Prospectus, the Trust Agreement, the Underwriting Agreement, the Registry and Paying Agency Agreement and other agreements relevant to the Offer.

The issue of fixed rate Three Year Bonds at 8.0% p.a. and fixed rate Five Year Bonds at 8.7% p.a. with an aggregate oversubscription option of up to ₱1,500,000,000 was authorized by a resolution of the Board of Directors of Aboitiz Power Corporation (the "Issuer") dated November 20, 2008.

The Bonds shall be constituted by a Trust Agreement executed on April 13, 2009 (the "Trust Agreement") entered into between the Issuer and Bank of the Philippine Islands Asset Management and Trust Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A registry and paying agency agreement executed on April 13, 2009 (the "Registry and Paying Agency Agreement") in relation to the Bonds among the Issuer, Philippine Depository & Trust Corporation as paying agent (the "Paying Agent") and as registrar (the "Registrar").

The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Fifty Thousand Pesos (₱50,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

The Five Year Bonds shall mature on May 1, 2014 and the Three Year Bonds shall mature on April 30, 2012, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

The Paying Agent and Registrar has no interest in or relation to AP which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to AP which may conflict with the performance of its functions as Trustee.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

Form and Denomination

The Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (₱50,000.00) each as a minimum and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

Title

Legal title to the Bonds shall be shown in the Registry Book maintained by the Registrar. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offering shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Registry Book

maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

BOND RATING

The Bonds have been rated PRS Aaa by Philippine Rating Services Corporation ("Phil Ratings"), due to AP's ability to record robust operating profit from a diverse portfolio of operating subsidiaries. A rating of PRS Aaa is assigned to long-term debt securities with the smallest degree of investment risk. Interest payments are protected by a large or by an exceptionally stable margin, and principal is secured. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues. A rating of PRS Aaa is the highest credit rating on PhilRatings' long-term credit rating scale.

PhilRatings arrived at the above rating for the Bonds based on a number of important considerations: projected cash dividend receipts of AP are expected to comfortably service debt obligations over the term of the rated issues, solid track record of the Aboitiz management team in power and other industries, the Company is the largest and most experienced operator of hydroelectric power plants in the country and the outlook for the power industry continues to be relatively stable for energy producers over the next few years.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Bonds with the regular annual reviews.

TRANSFER OF BONDS

Registry Book

The Issuer shall cause the Registry to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Registry Book. As required by Circular No. 428-04 issued by the Bangko Sentral ng Pilipinas, the Registrar shall send each Bondholder, in the mode elected by such Bondholder in the Application to Purchase or the Registration Form, a written statement of registry holdings at least quarterly (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder.

Transfers; Tax Status

Bondholders may transfer their Bonds at anytime, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax exempt entities trading with tax paid entities shall be treated as tax paid entities for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under *"Payment of Additional Amounts; Taxation"* on page 50, within three (3) days from the settlement date for such transfer.

Secondary Trading of the Bonds

The Issuer intends to list the Bonds in PDEx for secondary market trading or such other securities exchange as may be licensed as such by the SEC on which the trading of debt securities in significant volumes occurs. Secondary market trading in PDEx shall follow the applicable PDEx rules and conventions, among others, rules and conventions on trading and settlement. Upon listing of the Bonds with PDEx, investors shall course their secondary market trades through PDEx Brokering Participants for execution in the PDEx Public Market Trading Platform in accordance with PDEx Trading Rules, Conventions and Guidelines, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The PDEx rules and conventions are available in the PDEx website (www.pdex.com.ph). An Investor Frequently Ased Questions (FAQ) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

RANKING

The Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank pari passu and rateably without any preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by the law.

INTEREST

Interest Payment Dates

The Three Year Bonds bear interest on its principal amount from and including Issue Date at the rate of 8.0% p.a., payable quarterly starting on July 30, 2009 for the first interest payment date, and July 30, October 30, January 30 and April 30 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment, if such Interest Payment Date is not a Business Day. The last Interest Payment Date shall fall on the Maturity Date.

The Five Year Bonds bear interest on its principal amount from and including Issue Date at the rate of 8.7% p.a., payable quarterly starting on July 30, 2009 for the first interest payment date, and July 30, July 30, January 30 and April 30 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding, or the subsequent Business Day, without adjustment, if such Interest Payment Date is not a Business Day.

For purposes of clarity the last Interest Payment Date on the Five Year Bonds shall fall on the Maturity Date or May 1, 2014, which is five years and one day from Issue Date. The interest payable on the last Interest Payment Date on the Five Year Bonds shall be calculated for a period of 91 days on the basis of a 360-day year.

Interest Accrual

Each Bond shall cease to bear interest from and including the Maturity Date, as defined in the discussion on *"Final Redemption"* on page 49, unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see *"Penalty Interest"* on page 54) shall apply.

Determination of Interest Amount

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

For purposes of clarity, the interest payable on the last Interest Payment Date on the Five Year Bonds shall be calculated for a period of 91 days on the basis of a 360-day year.

REDEMPTION AND PURCHASE

Final Redemption

Unless previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on the respective Maturity Dates. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the Maturity Date is not a Business Day.

Optional Redemption of the Five Year Bonds

Prior to final maturity, the Issuer may redeem in whole and not a part only of the relevant outstanding Five Year Bonds on the twelfth (12th) Interest Payment Date (the "Optional Redemption Date"). The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the Five Year Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Five Year Bonds on the Optional Redemption Date.

The amount payable to the Bondholders in respect of such redemptions shall be calculated based on the principal amount of the Five Year Bonds being redeemed, as the sum of (i) one hundred two percent (102%) of the principal amount; and (ii) accrued interest (to be reckoned from the immediately preceding Interest Payment Date up to Optional Redemption Date) on the principal amount of the Five Year Bonds being earlier redeemed.

Redemption for Tax Reasons

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days' notice) at par plus accrued interest, subject to the requirements of applicable law. For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes, which shall be for the account of the Bondholders.

Purchase and Cancellation

The Issuer may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Payments

The principal of, interest on, and all other amounts payable on the Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos, net of final taxes and fees (if any). AP shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds. AP may terminate the appointment of the Paying Agent, as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, AP shall appoint the Makati City office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

Payment of Additional Amounts - Taxation

Interest income on the Bonds is subject to a final withholding tax at rates of between 20.0% and 30.0% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

(a) The applicable final withholding tax applicable on interest earned on the Bonds prescribed under the Tax Reform Act of 1997, as amended and its implementing rules and regulations as maybe in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue confirming the exemption or preferential rate; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar free and harmless against any tax assessments, claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Issuer that the Bondholder is not doing business in the Philippines; provided further that, all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

(b) Gross Receipts Tax under Section 121 of the Tax Code;

(c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and

(d) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by RA No. 9337. Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

FINANCIAL RATIOS

Similar to the covenants contained in other debt agreements of the Issuer, the Issuer shall maintain the following financial ratios:

The Issuer shall not permit its Debt-to-Equity ratio to exceed 2:1 calculated based on the Issuer's year-end audited financial statements; Provided, however, that for the purposes of determining compliance with the required Debt-to-Equity ratio as herein provided, the outstanding preferred shares and contingent liabilities of the Issuer, including but not limited to the liabilities in the form of corporate guarantees in favor of any other person or entity shall be included in the computation of the Issuer's outstanding debts;

The Issuer shall not contract any loan obligation with a maturity of more than one (1) year, only if such obligation will result in a violation of the Debt-to-Equity ratio set forth above;

The Issuer shall not, after the occurrence of an Event of Default, voluntarily prepay any Indebtedness unless it shall contemporaneously make a proportionate prepayment of the Bonds; and

The Issuer shall not, in any case, execute, perform or do any other act which shall have a Material Adverse Effect.

Events of Default

Each of the following events constitutes an Event of Default.

(a) ***Payment Default***. The Issuer fails to pay when due and payable any amount which the Issuer is obligated to pay the Bondholders under the Bonds.

(b) ***Representation Default***. Any representation or warranty made by the Issuer in the Trust Agreement or in any certification, financial statement or document issued pursuant thereto or otherwise in connection therewith shall prove to have been untrue, incorrect or misleading in any material respect, as determined by the Bondholders as of the time it was made or deemed to have been made or is violated or not complied with, except for clerical or typographical error.

(c) ***Other Provisions Default***. The Issuer fails to perform or comply with any term, obligation or covenant contained in the Trust Agreement or in any other document/instruments related or otherwise in connection therewith and any such failure, violation, non-compliance is not remediable or if remediable, continues unremedied for a period of ninety (90) days for financial covenants and sixty (60) days for all other covenants from the date after written notice thereof shall have been given by any of the Trustee; *Provided*, however, that for the avoidance of doubt, no grace period shall apply to the Events of Default specified in (a), (b), (d), (e), (f), (h) and (i) of this section;

(d) ***Cross-Default.*** Any other material obligation of the Issuer for borrowed money, deferred purchase price or monetary obligation is not paid when due or after giving effect to any applicable grace period and, in general, any default in the performance or observance of any instrument, contract or agreement pursuant to which any other obligation of the Issuer was created, unless contested in good faith, which default shall result in the acceleration or declaration of the whole obligation thereunder to be due and payable prior to the stated normal date of maturity;

(e) ***Insolvency Default***. The Issuer or any of its Subsidiaries or Material Affiliates becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which act shall include: (i) the filing of a petition in any bankruptcy, reorganization, winding up or liquidation of the Issuer, or any other proceeding analogous in purpose and effect: Provided, however, that in case the foregoing petition is filed by any other party, other than the Issuer, any Subsidiary or Material Affiliate, such event shall be considered a declared Event of Default if such petition is not dismissed or decided in favor of the Issuer, or any Subsidiary or Material Affiliate, as the case may be, within a period of ninety (90) days, from the date of filing thereof; (ii) the making of an assignment by the Issuer, any Subsidiary or Material Affiliate, for the benefit of its creditors; (iii) the admission in writing by the Issuer, any Subsidiary or Material Affiliate, of its inability to pay its debts; (iv) the entry of any order or judgment of any court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer, any Subsidiary or Material Affiliate, or approving any reorganization, winding up or liquidation of the Issuer, any Subsidiary or Material Affiliate; or (v) the appointment of a receiver, liquidator, assignee, trustee, or sequestrator of the Issuer, any Subsidiary or Material Affiliate, or a substantial part of its property or assets or a substantial part of its capital stock or to assume custody or control of the Issuer, any Subsidiary or Material

Affiliate, or the ordering of its dissolution, winding-up or liquidation of its affairs; *Provided* that, the insolvency, bankruptcy, or inability of any Subsidiary or Material Affiliate to pay its debts under (i) to (v) above shall result in a Material Adverse Effect;

(f) ***Closure Default.*** Cessation in the business of the Issuer;

(g) ***Event or Condition Affecting Loan Documents***. Any event, condition, or circumstance (including, without limitation, any change in the economic or financial condition of the Issuer) shall occur which, in the reasonable determination of the Majority Bondholders, may have a material and adverse effect on the business, assets, prospects, condition or operations of the Issuer, or which might have a Material Adverse Effect;

(h) ***Expropriation Default***. Any act or deed or judicial or administrative proceedings in the nature of an expropriation, confiscation, nationalization, acquisition, seizure, sequestration or condemnation of, or with respect to the business and operations of the Issuer, all or substantially all of the property or assets of the Issuer, shall be undertaken or instituted by any Governmental Authority;

(i) ***Cancellation of Licenses, Permits, etc.*** Any of the licenses, permits, rights, options, or privileges presently or hereafter enjoyed, utilized or required in the conduct of the business or operations of the Issuer shall be revoked, cancelled, or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in each case in such manner as to materially and adversely affect the ability of the Issuer to meet its obligations under the Trust Agreement, or any similar events that occur which materially and adversely affect the ability of the Issuer to meet its obligations under the Trust Agreement;

(j) ***Judgment Default***. Any other final judgment or decree for a sum of money, damages or for a fine or penalty against the Issuer or any attachment against property for any amount whatsoever is left undischarged, unbounded or undismissed for a period of thirty (30) days after finality of judgment, which will materially affect the ability of the Issuer to perform its obligations under the Trust Agreement;

(k) ***Writ and Similar Process Default***. An attachment or levy upon the Issuer's property which would materially impair the financial ability of the Issuer to perform its obligations under the Trust Agreement;

(l) ***Non-Payment of Taxes.*** Non-payment of any Taxes, or any assessments or governmental charges levied upon it or against its properties, revenues and assets by the date on which such Taxes, assessments or charges attached thereto, which are not contested in good faith by the Issuer, or after the lapse of any grace period that may have been granted to the Issuer by the Bureau of Internal Revenue or any other Philippine tax body or authority;

(m) ***Contest.*** The Issuer shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Issuer under the Trust Agreement or the Bonds;

(n) ***Illegality.*** The Agreement or the Bonds or any material portion hereof or thereof is declared to be illegal or unenforceable, unless such illegality or enforceability is remedied within thirty (30) days of the occurrence or declaration of the illegality or unenforceability, as the case may be; and

(o) ***Analogous Effect.*** Any event occurs which under the Law has an analogous effect to any of the events referred to in the foregoing paragraphs of this Section.

Consequences of Default

Declaration by the Trustee or the Majority Bondholders

(a) If any one or more of the Events of Default shall occur and be continuing, either the Trustee, upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare the principal of the Bonds then outstanding, including all interest accrued and unpaid thereon and all amounts due thereunder, to be due and payable immediately, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding.

(b) The provision in (a) above, however, is subject to the condition that except in the case of a Writ and Similar Process Default, the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul such declaration made by the Trustee pursuant to a consequence of default and its consequences, upon such terms, conditions and agreements, if any, as they may determine including, in connection with a Cross Default, the fact that the non-payment of the obligation is contested in good faith by the Issuer; provided, that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereto. Any such waiver shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Bonds, or of any Bond issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the Bonds.

(c) At any time after an Event of Default shall have occurred, the Trustee may:

(i) by notice in writing to the Issuer, the Paying Agent and the Registrar, require the Paying Agent and Registrar to:

(x) act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Registry and Paying Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability under the provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of the Trust Agreement in relation to the Bonds and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or

(y) deliver all evidence of the Bonds and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any law or regulation; and

(ii) by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Bonds to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn.

Notice of Default

The Trustee shall, within five (5) days after the occurrence of an Event of Default give to the Bondholders written notice of any such Event of Default known to it unless the same shall have been cured before the giving of such notice; provided, that, in the case of a Payment Default under paragraph (a) of Events of Default, the Trustee shall immediately notify the Bondholders upon the occurrence of such Payment

Default. The existence of a written notice required to be given to the Bondholders under this Section shall be published in two (2) newspapers of general circulation in Metro Manila, Philippines for two (2) consecutive days, indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee as indicated in the Trust Agreement upon presentation of sufficient and acceptable identification to the Trustee.

Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest, fees due to the Trustee, Registrar or Paying Agent or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty fee on the defaulted amount(s) at the rate of one percent (1.0%) per month (the "Penalty Interest") from the time the amount fell due until it is fully paid.

Payments in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest, where applicable, and in addition thereto the Issuer will pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Upon the occurrence of an Event of Default and in accordance with the requirements of the Trust Agreement, the Bondholders shall have the right, but not the obligation, to require the Issuer to redeem the Bonds in full, by payment of the amounts stated above, plus the principal amount, by delivery of the relevant evidence of the Bonds to the Trustee.

Application of Payments

Any money collected by the Trustee under this Section and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds, shall be applied by the Trustee in the order of preference as follows:

First: To the payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Trustee, Paying Agent, Registrar, and each such person's agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursement made by the Trustee, Paying Agent and Registrar without negligence or bad faith.

Second: To the payment of Penalty Interest.

Third: To the payment of the interest, in the order of the maturity of such interest.

Fourth: To the payment of the principal amount of the outstanding Bonds due and payable.

Fifth: The remainder, if any, shall be paid to the Issuer, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the conditions and covenants of in the Trust Agreement.

No delay or omission by the Trustee or by any Bondholder to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto, and every power and remedy given in the Trust Agreement to the Trustee or to the Bondholder may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal or interest, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (1) such holder previously shall have given to the Trustee written notice of default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds, and (2) the Majority Bondholders shall have decided and made a written request upon the Trustee to institute such suit, action or proceeding in its own name, and (3) the Trustee for sixty (60) days after receipt of such notice and request shall have neglected or refused to institute any such suit, action or proceeding, and (4) no directions inconsistent with such written request or waiver of default by the Bondholders pursuant to the succeeding section shall have been made, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholder shall have any right in any manner whatsoever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all Bondholders. For the protection and enforcement of the provisions of this Section, each and every Bondholder and the Trustee shall be entitled to such relief as can be given under the law.

Waiver of Default by Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and in behalf of the Bondholders to waive any past default except the Events of Default specified in paragraphs (a), (b), (e), (f), (h) and (i) and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

Meetings of Bondholders

Meetings

A meeting of Bondholders may be called at any time and from time to time pursuant to the provisions of this Section for the purpose of taking any action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under applicable law and such other matters related to the rights and interests of the Bondholders under the Bonds.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct the Trustee to call a meeting of the Bondholders, to take any action specified in herein, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders and published in two (2) newspapers of general circulation in Metro Manila, Philippines not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the notices for the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported statement of account.

Failure of Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, the notice of such meeting within twenty (20) days after receipt of such request, then the Issuer or the holders of Bonds in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof, and the costs thereof shall be chargeable to the Trustee.

Quorum

The presence of the Majority Bondholders personally or by proxy shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

Procedure for Meetings

The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting from among the Bondholders then present or represented during the meeting.

Any meeting of the Bondholders duly called pursuant to the provisions of this Section may be adjourned from time to time for a period or periods not to exceed in the aggregate one (1) year from the date for which the meeting shall originally have been called, and the meeting so adjourned may be held on another date without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of the Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of such meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representative of the Issuer and its legal counsel.

Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the majority of the Bondholders present or represented in a meeting at which there is a quorum, except as otherwise provided in the Trust Agreement.

Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Trustee as if the votes were unanimous.

Role of the Trustee in Meetings of Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of Bonds, the appointment of proxies by registered holders of Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem fit.

Evidence Supporting Bondholders' Action

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of Bonds may take any action (including the making of any demand or request, the giving of any notice or consent, or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing; (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith; or (iii) a combination of such instruments and any such record of meeting of the Bondholders.

Duties and Responsibilities of the Trustee

The Trustee shall act as trustee for and in behalf of the Bondholders and as such shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the Issuer's observance of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters to be taken up with the Issuer.

The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total issuance of the Bonds.

The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the Trust Agreement.

The Trustee shall, from time to time, request the Issuer to submit such certification of its officers, reports of its external auditors, and other documents relating to the Issuer's ability to comply with its obligations under the Bonds and the Trust Agreement, as well as to examine such records of the Issuer as may be related to the Issuer's obligations under the Bonds and the Trust Agreement.

The request shall be reasonable, made not less than seventy-hours (72) hours prior to the intended date of examination and shall be in writing to the Issuer which shall include, in reasonable detail, the purpose for such request and the intended use of the requested documents or information. The Issuer may require the Trustee, its directors, officers, employees, representatives, agents, partners, consultants and advisors to hold in confidence such documents and information furnished to the Trustee pursuant to said request or to limit the use thereof for the purpose intended as stated in the request, provided such limitation shall not apply if in conflict with the duties and responsibilities of the Trustee under any provision of the Trust Agreement.

The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances.

The Trustee shall inform the Bondholders of any event which has a Material Adverse Effect on the ability of the Issuer to comply with its obligations to the Bondholders, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns of such events.

The Trustee shall perform such other powers and functions as provided for elsewhere under the Trust Agreement.

Supplemental Agreements

With the consent of the Majority Bondholders, the Issuer, when authorized by a resolution of its board of directors, and the Trustee may, from time to time and at any time, enter into an agreement or agreements supplemental hereto for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Trust Agreement; provided, however, that no such supplemental agreement shall -

(a) Without the consent of each Bondholder affected thereby:

(i) extend the fixed maturity of the Bonds, or

(ii) reduce the principal amount of the Bonds, or

(iii) reduce the rate or extend the time of payment of interest and principal thereon;

(b) Affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders; or

(c) Reduce the percentage required to be obtained of the Bondholders to consent to or approve any supplemental agreement or any waiver provided for in the Trust Agreement without the consent of all the Bondholders.

It shall not be necessary to obtain the consent of the Bondholders under this Section for the purpose of approving the particular form of any proposed supplemental agreement but such consent shall be necessary for the purpose of approving the substance thereof.

Any consent given pursuant to this Section shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof or of any Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Bonds.

Promptly after the execution by the Issuer and the Trustee of any supplemental agreement pursuant to the provisions of this Section, the Issuer shall send a notice to the Bondholders setting forth in general terms the substance of such supplemental agreement. Any failure of the Issuer to send such notice or any defect therein shall not, however, in any way impair or affect the validity of any supplemental agreement.

MISCELLANEOUS PROVISIONS

Notice

Any notice or demand authorized by the Trust Agreement to be given to the Issuer and the Trustee shall be sufficiently given for all purposes hereof, if delivered or mailed at their respective addresses mentioned herein or at such address designated by them subsequently in writing.
Notices to the Bondholders shall be sent to their mailing address as set forth in the Registry Book. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any of the following modes: (i) registered mail; (ii) surface mail; (iii) electronic mail to the email address designated by the Bondholder in the Application to Purchase (iv) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Registry Book. The Trustee shall rely on the Registry Book provided by the Registrar, in determining the Bondholders entitled to notice.

All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on the date of publication, or (iv) on the date of delivery, for personal delivery or electronic mail, as the case may be.

Binding and Conclusive Nature

All notifications, opinion, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence of willful default, bad faith or manifest error) no liability to the Issuer, the Registrar, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

Dispute Settlement

In case any dispute shall arise between the Issuer, the Trustee or any of the Bondholders in respect of the Trust Agreement, or other related agreements or arrangements, the Issuer, the Trustee or any of the Bondholders shall attempt to resolve the same amicably by agreement which shall be in writing. However, if no such agreement is concluded within thirty (30) Banking Days from the time the dispute arose, or such period as may be reasonable under the circumstances, the parties may have recourse to the usual judicial action obtaining under the circumstances.

No Right to Set-Off

The Trustee shall have no right to apply funds or money of the Issuer on deposit with or in the custody of the Trustee or any of its branches, subsidiaries, or affiliates on reduction of amounts past due under the Trust Agreement.

Governing Law

The Bonds issued hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the Republic of the Philippines.

THE COMPANY

CORPORATE HISTORY AND STRUCTURE

The Company is a publicly listed holding company that, through its Subsidiaries and Affiliates is a leader in the Philippine hydroelectric power generation industry and has interests in some of the largest privately-owned distribution utilities in the Philippines. Since its incorporation in 1998, the Company has accumulated interests in both hydroelectric power generation facilities and in thermal plants. The Company's controlling shareholder, AEV is a diversified conglomerate that is listed on the PSE and has interests in power generation, power distribution, financial services, transportation and food manufacturing. This relationship allows the Company to draw on the extensive business networks, local business knowledge, relationships and expertise of AEV's and the Aboitiz Group's senior managers to identify growth opportunities at an early stage and to capitalize on such opportunities more decisively.

The Company's hydroelectric power generation facilities consist of the following:

1. 175 MW Ambuklao-Binga hydroelectric complex in Benguet, a joint venture with SN Power;
2. 360 MW Magat Plant in Luzon, a joint venture with SN Power;
3. 70 MW Bakun Hydro Plant in Luzon, in a joint venture with Pacific Hydro Limited of Australia;
4. 15 mini hydro plants run by Hedcor, Inc. with combined generating capacity of 38.2 MW.

In 2007 and 2008, these facilities generated and sold a total attributable energy of 660 GWh and 943 GWh, respectively.

As of December 31, 2008, the Company's Bunker C-fired plants had a total attributable capacity of 158 MW. The Company has a 20.0% ownership interest in each of SPPC and WMPC. Each of SPPC and WMPC operates a Bunker C-fired plant located in Alubel, Sarangani and Zamboanga City respectively, with a combined generating capacity of 155 MW.

In the first half of 2007, the Company acquired a 50.0% interest in EAUC which owns and operates a 50 MW Bunker C fired plant located in Mactan, Cebu. At the same time, the Company purchased a 60.0% ownership interest in CPPC which operates a 70 MW Bunker C-fired plant in Cebu City. In addition, two of the Company's distribution utilities, DLPC and CLPC, operate two Bunker C-fired plants with a combined installed capacity of 60 MW which are used for back-up power. In 2007 and 2008, the Bunker C-fired plants generated and sold a total attributable energy of 280 GWh and 333 GWh of electricity, respectively.

In January 2007, the Company entered into a series of transactions with AEV pursuant to which it acquired ownership interests in the Distribution Companies. As a result, the Company owns interests in several distribution utilities in Luzon, Visayas and Mindanao, including VECO and DLPC, which are respectively the second and third largest privately owned distribution utilities in the Philippines in terms of both customers and annual GWh sales. The Company also owns interests in CLPC, SEZ, SFELAPCO, MEZ and BEZ. For 2008, the Distribution Companies sold a total attributable energy of 3,142 GWh of electricity to approximately 658,318 customers.

Ownership in the Company was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in the PSE on July 16, 2007.

Recent Acquisitions

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company agreed to acquire from its affiliate, Aboitiz Land, Inc. a 100% interest in MEZ, which owns and operates the power distribution system in the MEPZ II in Mactan Island in Cebu, and a 60.0% interest in BEZ, which owns and operates the power distribution system in the WCIP in Balamban town in the

western part of Cebu. The Company also consolidated its ownership interest in SEZ by acquiring the combined 25.0% interest in SEZ held by AEV, SFELAPCO, Okeelanta and PASUDECO. These acquisitions were made through a share swap agreement which involved the issuance of a total of 170,940,307 common shares of the Company issued at the IPO price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ and SEZ.

On November 15, 2007, AP closed the sale and purchase of a 34.0% equity ownership in STEAG Power, owner and operator of a 232 MW coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy from Evonik Steag GmbH (formerly known as STEAG GmbH) the 34.0% equity in August 2007. The total purchase price for the 34.0% equity in STEAG Power is US$102 million, inclusive of interest.

On November 28, 2007, SNAP-Benguet, a consortium between the Company and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75 MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100 MW Binga Hydroelectric Power Plant located at Itogon, Benguet. The price offered amounted to US$325 million. The PSALM issued the Notice of Award to SNAP-Benguet on December 19, 2007. Last July 10, 2008, PSALM formally turned over Ambuklao-Binga to SNAP-Benguet.

On December 17, 2007, the Company entered into an agreement to buy the 20.0% equity of Team Philippines in SEZ for ₱92 million. Together with the 35.0% equity in SEZ of the Company's subsidiary DLPC, this acquisition brings the Company's total equity in SEZ to 100%.

On March 7, 2008, the Company bought the 40.0% equity ownership of Tsuneishi Holdings (Cebu), Inc. in BEZ for approximately ₱178 million. The acquisition brought the Company's total equity in BEZ to 100%.

On July 30, 2008, APRI, a wholly owned subsidiary of the Company, submitted the highest bid to the PSALM for the 289 MW Tiwi geothermal facility in Albay and the 458 MW Makiling-Banahaw geothermal facility in Laguna (Tiwi-Makban). The price offered amounted to approximately US$447 million.

Power Generation

The Company conducts its power generation activities through the Generation Companies.

- Through its wholly owned subsidiary, PHC, the Company owns a 100% equity interest in Hedcor. Hedcor also owns and operates 10 mini-hydroelectric plants in Northern Luzon and 5 mini-hydroelectric plants in Davao City in Southern Mindanao, with a total installed capacity of 38.2 MW.

- PHC has a 50.0% equity interest in LHC, which operates the 70 MW Bakun AC hydroelectric plant in Ilocos Sur province in Northern Luzon. Pursuant to the terms of the Bakun PPA, the generating capacity of the Bakun plant is contracted to NPC for a period of 25 years beginning in February 2001.

- PHC has effective 50.0% ownership interests in SNAP-Magat and SNAP-Benguet, in joint venture with SN Power.

- In connection with the privatization of NPC's power generation assets, the Company, through SNAP-Magat, participated in and won the bid conducted by PSALM for the 360 MW Magat hydroelectric plant in December 14, 2006 and through SNAP-Benguet the 175 MW Ambuklao Binga hydroelectric plant in November 28, 2007. The winning bids for the Magat and Ambuklao Binga hydroelectric plants were for US$530 million and US$325 million, respectively. The Magat plant was turned over by PSALM to SNAP on April 26, 2007 while the Ambuklao-Binga plant was turned over on July 10, 2008.

- The Company also has 20.0% equity interest in SPPC, which operates the 55 MW Plant near General Santos City in Mindanao, and WMPC, which operates a 100 MW Plant in Zamboanga del Sur Province.

- The Company has a 50.0% ownership interest in EAUC, which operates a 50 MW Bunker C-fired plant within MEPZ 1 in Mactan island.

- The Company also has a 60.0% of the outstanding common shares of CPPC, which operates a 70 MW Bunker C-fired plant in Cebu City. The CPPC plant was developed pursuant to a BOT agreement to supply 62 MW of power to VECO. VECO also owns all of the issued and outstanding preferred shares of CPPC, which comprises 20.0% of CPPC's outstanding capital stock.

- The Company has a 100% equity interest in Hedcor Sibulan, Inc., which is currently constructing the 42.5 MW Sibulan hydropower project in Santa Cruz, Davao del Sur.

- The Company also has a 100% equity interest in Hedcor Tamugan, Inc., which proposes to build the 27.5 MW Tamugan hydropower project in Davao City.

- In August 2007, the Company, together with Vivant Energy Corporation of the Garcia Group, signed a Memorandum of Agreement with Global Power for the construction and operation of a 3x82 MW coal-fired power plant in Toledo City, Cebu. The project, which broke ground last January 2008, is expected to be completed by the second half of 2010. AP will have an effective participation of 26.4% in the project.

The table below summarizes the Company's power generation companies and key information as of December 31, 2008:

Generation Plant	Installed Capacity (MW)	AP % Ownership	AP's attributable Capacity (MW)	Fuel Type	Offtaker
SNAP-Magat	360	50	180	Hydro	Electricity spot market / Electric Cooperatives[1]
SNAP-Benguet	175	50	88	Hydro	Electricity spot market
LHC	70	50	35	Hydro	NPC / BOT
Hedcor	38	100	38	Hydro	NPC / BOO
WMPC	100	20	20	Bunker	NPC / BOO
SPPC	55	20	11	Bunker	NPC / BOO
CPPC	70	60	42	Bunker	Visayan Electric Corp.
EAUC	50	50	25	Bunker	Mactan Export – Processing Zone 1
STEAG	232	34	79	Coal	NPC / BOT
DLPC	53	100	53	Bunker	DLPC and Transco
CLPC	7	100	7	Bunker	CLPC
TOTAL	**1,210**		**578**		

Power Distribution

In January 2007, the Company entered into a series of transactions with AEV pursuant to which it acquired ownership interests in the Distribution Companies. In a share swap agreement with AEV, AP issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in the following distribution companies, as follows:

[1] SNAP-Magat's offtake agreements with electric cooperative provide a continuity of supply until May 25, 2009.

(a) An effective 54.7% ownership interest in VECO, which is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and is the largest distribution utility in the Visayas region;

(b) A 99.9% equity interest in each of DLPC and CLPC. DLPC is the third largest privately owned distribution utility in the Philippines in terms of customers and annual GWh sales;

(c) An effective 64.3% ownership interest in SEZ which manages the power distribution system of the SBMA; and

(d) An effective 43.8% ownership interest in SFELAPCO, which holds the franchise to distribute electricity in the city of San Fernando, Pampanga, in Central Luzon, and its surrounding areas.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company agreed to acquire from its affiliate, Aboitiz Land, Inc. a 100% interest in MEZ, owner and operator of the distribution system in MEPZ II in Mactan Island, Cebu, and a 60.0% interest in BEZ, owner and operator of the distribution system in the WCIP. The Company also consolidated its ownership interest in SEZ, by acquiring the combined 25.0% interest in SEZ held by AEV, SFELAPCO, Okeelanta and PASUDECO. The share swap agreement involved the issuance of a total of 170,940,307 common shares of AP issued at the initial public offering price of ₱5.80 per share in exchange for 100% equity interest in MEZ, 60.0% equity interest in BEZ and an additional 25.0% equity interest in SEZ.

On December 17, 2007, the Company bought the 20.0% equity stake of Team Philippines in SEZ for ₱92 million. Together with the 35.0% equity in SEZ of the Company's subsidiary, DLPC, this acquisition brings AP's total equity in SEZ to 100%.

On March 7, 2008, the Company bought the 40.0% equity ownership of Tsuneishi Holdings (Cebu), Inc. (Tsuneishi) in BEZ for approximately ₱178 million. The acquisition brought the Company's total equity in BEZ to 100%.

The table below summarizes the Company's power distribution companies and franchise period as of December 31, 2008:

Power Utility	AP % Ownership	Franchise Expiry
Visayan Electric Company, Inc.	55.1	2030
Davao Light & Power Co., Inc.	99.9	2025
San Fernando Light and Power Co., Inc.	43.8	2011
Cotobato Light and Power Company	99.9	2014
Subic Enerzone Corp.	100	2028
Mactan Enerzone	100	zone life
Balamban Enerzone	100	zone life

VECO is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and is the largest distribution utility in the Visayas region. DLPC is the third largest privately-owned distribution utility in the country in terms of customers annual GWh sales.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGY

Competitive Strengths

The Company believes that its principal strengths are the following:

- ***Strong track record in both power generation and distribution.***

Power generation. The Company, through its Subsidiaries and Affiliates, has extensive experience in developing, financing, building and operating power generation facilities throughout the Philippines, particularly hydroelectric power generation facilities. As of December 31, 2008, the Company is a market leader in mini-hydroelectric plants and, taking into consideration the acquisition of the Magat and Ambuklao-Binga hydroelectric plants, is the largest Filipino-owned private sector company in hydroelectric power generation in terms of installed capacity. The Company believes its extensive experience in all aspects of hydroelectric power generation places it in an excellent position to capture future market share in the Philippine hydroelectric power generation industry.

Power distribution. Through its affiliation with the Aboitiz Group, which has a 70-year history in the Philippine power distribution sector, and its ownership interests in the Distribution Companies, the Company has a track record of efficiently operating and maintaining power distribution utilities in two of the largest electricity markets in the Philippines, Cebu City and its surrounding areas and Davao City. The Company has used its experience in power distribution to improve the operating efficiencies of certain distribution systems that it manages, such as in the SBFZ, and of distribution utilities and end-users advised by its wholly-owned subsidiary AESI.

- ***Ability to take advantage of expected strong power market fundamentals.***

According to the DOE, for the period from 2006 to 2014, growth in demand for electricity in the Philippines is expected to exceed the growth rate of the Philippines' gross domestic product, with the DOE estimating energy consumption in Luzon, the Visayas and Mindanao to increase at an average annual growth rate of 4.4%, 4.6% and 4.6% respectively. As an established and reputable operator of IPPs, the Company believes that the location of its current generation facilities will allow it to benefit from the continued economic development of the Philippines. The Company believes that there will be increasing demand for hydroelectric energy in the Philippines as the combined effects of rising hydrocarbon fuel costs and ongoing pressure from environmental groups are expected to encourage the development of more environment-friendly power generation facilities.

- ***Vertically-integrated power generation and distribution company.***

Being a vertically integated power company allows AP the opportunity to compete and maximize value in the key segments of the power industry value chain by driving and capitalizing on the synergies between Generation and Distribution. The customer relationships built over the last 70 years by the distribution business allows AP direct customer contact and a ready base market for its Greenfield and acquisition targets. Today, this synergy is already being exploited with AP setting up power plants to sell power to VECO, MEZ, BEZ, DLPC and possibly SEZ.

- ***Power generation contracts that provide steady and predictable cash flow.***

As of the date of this Prospectus, 56.0% of the attributable generating capacity of the Company is contracted under long-term PPAs, which the Company believes will provide steady cash flows in the medium and long-term from proven power offtakers such as NPC. In particular, the Generation Companies have existing bilateral contracts that require offtakers to either pay for available capacity (in the case of EAUC, CPPC, STEAG Power, SPPC and WMPC) or to pay for all the electricity generated by the relevant plant (in the case of Hedcor and LHC) or for energy contracted as in the case of SNAP-Magat, CPPC, EAUC, SPPC, and WMPC do not take fuel risk either because of direct pass-through

mechanisms in their respective PPAs or fuel is supplied by their offtakers. STEAG Power's revenue structure allows for adjustments for fluctuations in coal prices. As of the date of this Prospectus, offtakers have generally paid the Generation Companies all of their respective offtake payment obligations on time. Further, NPC's payment obligations to LHC under the Bakun PPA, STEAG Power, SPPC and WMPC are also unconditionally guaranteed by the Government.

- ***Benefits and low operating costs from renewable energy and renewable energy sources.***

Lower operating costs. Each of Hedcor and LHC operate Run-of-river hydroelectric power generation facilities. Because this type of generation facility relies on natural water flow to generate electricity, they are not exposed to market fluctuations in the price of hydrocarbon fuels. Further, hydroelectric plants, such as the 360 MW Magat plant and 175 MW Ambuklao-Binga plant, have relatively quick ramp-up and ramp-down capabilities. The Company believes that the Magat and Ambuklao-Binga plants can therefore provide multiple ancillary services to the Luzon Grid, such as frequency regulation, acting as a spinning reserve and providing back-up power.

Benefits from renewable energy. Electricity sales from generating facilities using renewable energy sources, such as the Company's hydroelectric facilities, are "zero-rated" for purposes of VAT. This means that the Generation Companies are not required to include the VAT as part of the rates they charge offtakers but are allowed to claim as tax credit the amount of VAT that they are required to pay to their suppliers.

Further, because the Company has a number of Run-of-river hydroelectric facilities located in different regions of the Philippines, the Company believes it has a natural hedge against the risk of hydrological conditions in one area of the Philippines affecting all of the Company Run-of-river facilities.

The recently effective Republic Act No. 9513, the Renewable Energy Act ("RE Law") will likewise operate to give additional incentives to the Generation Companies, which will in turn translate to lower operating costs. The law provides fiscal and non-fiscal incentives, including income tax holiday for a period of seven (7) years, duty-free importation, and special rates on real property taxes among others. See "The Renewable Energy Act of 2008"on page 191.

- ***Dependable and growing sources of income from its power distribution businesses.***

The Company's ownership interest in the Distribution Companies is expected to continue to provide stable sources of revenues. With VECO and DLPC as the second and third largest privately-owned distribution utilities in the Philippines in terms of both customers and annual GWh sales forming part of the Company's distribution portfolio, the Company is well-positioned to benefit from increases in electric consumption in two of the largest electricity markets in the Philippines as economic activity in these markets increases.

Moreover, the implementation of the PBR is expected to positively impact the income of the Distribution Companies.

- ***Strong financial position and the ability to obtain limited recourse and corporate level financing.***

The Company believes that its strong financial position enables it to implement its strategy of expanding its generation portfolio through selective acquisitions and Greenfield projects, while at the same time improving the operation performance and efficiency of the Distribution Companies. The Company's strong balance sheet supports its growth plans. The Company, through the Generation Companies and the Distribution Companies, has also consistently been able to secure bank financing from leading Philippine banks.

- ***Established relationships with strategic partners.***

The development, construction and operation of the Bakun plant benefited and continues to benefit from the involvement of PHPL, which has a 50.0% interest in LHC and is a leading developer of wind and water-powered generation facilities in the Asia-Pacific region. In addition, the Company has established a strategic partnership to own and operate the Magat and Ambuklao-Binga hydroelectric plants with SN Power, which is a growing renewable energy company with projects and operations in Asia, Africa and Latin America.

The Company believes that it can build on its relationships with these partners to enhance its ability to compete for, develop, finance and operate future power generation projects. For example, SN Power's affiliation with Statkraft (which is one of Europe's largest producers of power from renewable sources) enabled the Company to tap SN Power's expertise during the bidding process for the Magat and Ambuklao-Binga plants in order to analyze the potential WESM pool prices applicable to the Magat and Ambuklao-Binga plants and assign a value based on forecasted revenues arising from the asset. This method of analysis would have been very difficult without SN Power's expertise and experience.

- ***Strong and experienced management team.***

The Company has an experienced management team with a hands-on understanding of both the financial and technical aspects of the power generation and distribution businesses. The Company's senior management has extensive operational and management experience in the power generation and distribution industries and has enjoyed a long tenure with the Company and the Aboitiz Group.

The Company's management team also has extensive knowledge of the Philippine power industry's business and regulatory environment and believes the Company has a good reputation with industry participants, from offtakers (such as NPC) to regulatory agencies (such as the DOE and the ERC). The Company believes that its reputation and its management team's network of contacts and relationships in the power industry are key factors in ensuring the sustainability of the Company's operations. The Company believes its growth and strong financial performance are indicative of the capabilities of the Company's management team.

Business Strategy

The Company's business strategy is to increase shareholder value by developing new generation projects, selectively acquiring existing generating facilities, expanding its electricity-related services and continuing to improve the operational efficiency of its existing generation and distribution facilities. More specifically, the Company's strategy includes the following:

- ***Expand the Company's generation portfolio.***

In light of the anticipated shortage of generation capacity in the Philippines, the Company intends to expand its generation portfolio to add value to its asset base and to further diversify its revenue stream. The Company's current plans include:

Acquiring additional power generation assets. The Company will pursue opportunities to acquire power generation assets that add value to its existing generation business, including certain power generation assets that are expected to be privatized by the Government.

Developing greenfield projects. The Company is in the process of expanding its portfolio of hydroelectric generation facilities with the construction and development of the 42.5 MW Sibulan Project. The Company expects that the construction, development and operation of the new plants will benefit from the Company's expertise in hydroelectric power.

In August 2007, AP, together with Vivant Energy Corporation of the Garcia Group, signed a Memorandum of Agreement with Metrobank Group's Global Business Power Corporation for the construction and

operation of 3x82 MW coal-fired power plant in Toledo City, Cebu. Completion of the first unit is expected by the first quarter of 2010, while the second and third units by the second half of 2010. AP will have an effective participation of 26.4% in the project.

Other Greenfield projects in the pipeline are the Tamugan hydropower plant in Davao and the coal fired plant in SBFZ:

- 100% owned Hedcor Tamugan plans to build two distinct Run-of-river hydroelectric plants with combined capacity of 27.5 MW hydropower plant in Davao City. The project will commence once all government permits have been secured.

  Hedcor Tamugan, together with Hedcor Sibulan, is part of the consortium that entered into a PSA with DLPC that involves the supply of 400,000,000 kWh per year.

- The construction of the 300 MW coal plant in the SBFZ was deferred pending further review of the power demand in the Luzon Grid.

- ***Expand the scope of the Company's distribution business and continue to improve the operational efficiency of its existing distribution assets.***

With the acquisition of the Distribution Companies, the sale and distribution of electricity is expected to comprise a significant portion of the Company's business going forward. The Company's current plans for the distribution business include:

Expanding the Company's distribution business. The Company intends to explore opportunities to expand its portfolio of distribution companies by either acquiring additional distribution utilities or by entering into agreements to manage distribution utilities or systems.

Improving the performance of the Distribution Companies. The Company will focus on improving the Distribution Companies' level of service and lowering their operating costs by exploiting synergies with the Generation Companies and across the Distribution Companies and by investing in new systems that will allow the Distribution Companies to be more efficiently managed. The Company believes that a strong distribution business of sufficient scale will continue to provide a springboard for the Company's strategies in electricity generation and electricity-related services. The Company intends to standardize and update the operations of the Distribution Companies, outsourcing service-related functions to third-party contractors and/or introducing automated systems where possible.

- ***Develop electricity-related services.***

The Company believes that its experience in the generation and distribution of electricity makes the Company well-suited, through AESI, to provide electricity-related services. The Company also plans to continue to expand AESI's power factor improvement and power distribution management businesses. The Company will seek to use these activities as a platform for expansion into other electricity-related services, such as energy audits, substation maintenance and thermal scanning.

AESI recently partnered with Davies Energy Systems, Inc., a US energy efficiency company, to bring comprehensive energy efficiency technologies and financial solutions to private firms and local governments throughout the Philippines. AESI and Davies Energy Systems will apply their combined expertise and technologies to reduce energy costs for office buildings, shopping malls, commercial centers, manufacturing plants, industrial facilities, and government entities. The agreement between AESI and Davies Energy Systems also provides for project financing that will allow customers to secure the benefits of energy savings technologies with little or no up-front cost.

- ***Establish and develop Retail Energy Supply Services***

The Company intends to aggregate the power requirements of other members of the Aboitiz Group, current AESI customers and Aboitiz Group business partners in the Philippines to enable it to take advantage of the Wholesale Aggregator and Retail Electricity Supplier licenses issued to AESI by the ERC. Having the second and third largest distribution utilities in the country, VECO and DLPC as part of the Company's portfolio, as well as having the capability of providing a maximum power supply of in excess of 1,600 MW (post turnover of Tiwi MakBan) from the Company's power plants situated all across the nation, the Company intends to use its retail license to market and sell power to large contestable customers throughout the Philippines upon Interim and Full Open Access. See "Retail Competetion and Open Access in page 193 for more information on Open Access.

- ***Continue strategy of alliances and partnerships with stakeholders.***

The Company plans to continue to nurture and strengthen its alliances with its strategic partners, including PHPL and SN Power, which are global leaders in the renewable energy sector. The Company believes that its relationship with these two partners gives it a competitive advantage in terms of operating a power business with a focus on renewable energy sources. The Company also has a strong relationship with its controlling shareholder, AEV. The Company believes it has a professional relationship with the DOE and the ERC, the key power industry regulatory bodies in the Philippines, as well as with other key Government offices and agencies. Furthermore, the Company intends to continue to build and maintain relationships with other key stakeholders, such as customers, contractors and the local government units and communities where it operates, as well as with non-governmental and community-based organizations.

- ***Maintain a high level of social responsibility in the communities in which the Company operates.***

The Company aims to conduct its business operations consistent with the highest standards of social responsibility and sustainable development, particularly in terms of environmental responsibility. The Company has actively participated in the development of the communities where its projects are located, which contribute to social and political stability in the areas where the Company operates. The Company also contributes a portion of its revenues to local government units to fund community development activities in the areas of education, health care, rural electrification and environmental protection. By continuing to strengthen its relationships with the local communities where it does business and build support and goodwill among the residents, non-governmental organizations, local government units and other stakeholders, the Company believes that it increases the likelihood that it will benefit from political and social stability in the areas where it operates.

CORPORATE HISTORY AND STRUCTURE

History

The Aboitiz Group’s involvement in the power industry began when members of the Aboitiz family acquired a 20.0% ownership interest in VECO in the early 1900s. The Aboitiz Group’s direct and active involvement in the power distribution industry can be traced to the 1930s, when ACO acquired the Ormoc Electric Light Company and its accompanying ice plant, the Jolo Power Company and CLPC. In July 1946, the Aboitiz Group strengthened its position in power distribution in the Southern Philippines when it acquired DLPC, which is now the third-largest privately-owned electric utility in the Philippines in terms of customers and annual GWh sales.

In December 1978, ACO divested its ownership interests in the Ormoc Electric Light Company and the Jolo Power Company to allow these companies to be converted into electric cooperatives, which was the

policy being promoted by the government of then-President Ferdinand Marcos. ACO sold these two companies and scaled down its participation in the power distribution business in order to focus on the more lucrative franchises held by CLPC, DLPC and VECO.

In response to the Philippines's pressing need for adequate power supply, the Aboitiz Group became involved in power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978, the Aboitiz Group incorporated HEDC. HEDC carried out feasibility studies (including hydrological and geological studies) and hydroelectric power installation and maintenance and also developed hydroelectric projects in and around Davao City. The Aboitiz Group also incorporated NORMIN in June 26, 1990, which focused on the development of mini-hydroelectric projects in Benguet province in Northern Luzon. By 1990, HEDC and NORMIN had commissioned and were operating 14 plants with a combined installed capacity of 36 MW. In 1996, the Aboitiz Group led the consortium that entered into BOT agreement with NPC to develop and operate the 70 MW Bakun AC hydroelectric plant in Ilocos Sur province.

The Company was incorporated on February 13, 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. However, in order to prepare for growth in the power generation industry, the Company was repositioned in the third quarter of 2003 as a holding company and owned power generation assets only. The divestment by the Company of its power distribution assets was achieved through a property dividend declaration in the form of the Company's ownership interests in the different power distribution companies. The property dividend declaration effectively transferred direct control over the Aboitiz Group's power distribution business to AEV. Further, in 2005 the Company consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and NORMIN's mini-hydroelectric assets into Hedcor (formerly Benguet Hydropower Corporation).

In January 2007, the Company entered into a share swap agreement with AEV in which the Company issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in the distribution companies. The Company now holds all of AEV's investments in the power distribution sector.

In February 2007, the Company entered into a Memorandum of Agreement with TCIC to collaborate in the building and operation of an independent coal-fired power plant in the SBFZ. In May 2007 RP Energy was incorporated as the project company that will undertake the Subic Coal Project.

On April 20, 2007, the Company acquired 50.0% of the outstanding capital stock of EAUC from El Paso Philippines. EAUC operates a Bunker C-fired plant with a capacity of 50 MW within the MEPZ 1 in Mactan Island, Cebu. On the same date, the Company also acquired from EAUC 60.0% of the outstanding common shares of CPPC. CPPC operates a 70 MW Bunker C-fired plant in Cebu City.

On April 26, 2007, PSALM turned over possession and control of the 360 MW Magat hydroelectric power plant to SNAP-Magat.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company agreed to acquire from its affiliate, Aboitiz Land, Inc. a 100% interest in MEZ, which owns and operates the power distribution system in the MEPZ II in Mactan Island in Cebu, and a 60.0% interest in BEZ, which owns and operates the power distribution system in the WCIP in Balamban town in the western part of Cebu. The Company also consolidated its ownership interest in SEZ by acquiring the combined 25.0% interest in SEZ held by AEV, SFELAPCO, Okeelanta and PASUDECO. These acquisitions were made through a share swap agreement which involved the issuance of a total of 170,940,307 common shares of the Company issued at the IPO price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ and SEZ.

In August 2007, the Company, together with Vivant Energy Corporation of the Garcia Group, signed a Memorandum of Agreement with Global Power for the construction and operation of a 3x82 MW coal-fired power plant in Toledo City, Cebu. The Company together with the Garcia Group formed Abovant. The Company owns 60.0% of Abovant. The project, which is being undertaken by CEDC, a joint venture company among Global Power, Formosa Heavy Industries and Abovant broke ground last January 2008

and is expected to be completed by the second half of 2010. The Company has an effective participation of 26.4% in the project.

On November 15, 2007, AP closed the sale and purchase of a 34.0% equity ownership in STEAG Power, owner and operator of a 232 MW coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy from Evonik Steag (formerly known as STEAG GmbH) the 34.0% equity in August 2007. The total purchase price for the 34.0% equity in STEAG Power is US$102 million, inclusive of interests.

On November 28, 2007, SNAP-Benguet, a consortium between AP and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75 MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100 MW Binga Hydroelectric Power Plant located at Itogon, Benguet. The price offered amounted to US$325 million. PSALM issued the Notice of Award to SNAP-Benguet on December 19, 2007.

On December 17, 2007, AP entered into an agreement to buy the 20.0% equity of Team Philippines in SEZ for ₱92 million. Together with the 35.0% equity in SEZ of AP's subsidiary DLPC, this acquisition brings AP's total equity in SEZ to 100%.

On March 7, 2008, AP bought the 40.0% equity ownership of Tsuneishi Holdings (Cebu), Inc. (Tsuneishi) in BEZ for approximately ₱178 million. The acquisition brought AP's total equity in BEZ to 100%.

Ownership in AP was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in the PSE on July 16, 2007.

On July 10, 2008, PSALM turned over possession and control of the 175 MW Ambuklao-Binga hydroelectric power plants to SNAP-Benguet.

On July 30, 2008, APRI, a wholly owned subsidiary of AP, submitted the highest bid to PSALM for the 289 MW Tiwi geothermal facility in Albay and the 458 MW Makiling-Banahaw geothermal facility in Laguna (Tiwi-MakBan). The Asset Purchase Agreement between PSALM and APRI became effective last August 26, 2008.

The Company will implement a corporate reorganization that will put all its renewable energy assets under PHC, which will be renamed later, and all its thermal generation assets under TPI.

From a small power distribution network in Ormoc in the 1930s, the Aboitiz Group's direct and active involvement in the power sector has continuously developed. With investments in power generation and distribution companies throughout the Philippines, the Aboitiz Group is considered one of the leading Filipino-owned companies in the power industry.

Structure

The following table sets out the Company's Subsidiaries' and Affiliates' ownership interests in the companies set out in the table as of December 31, 2008.

Generation: Renewables	
PHC	100%
Hedcor	100%
Hedcor Sibulan	100%
Hedcor Tamugan	100%
APRI	100%
LHC	50%
MORE	83.3%
SNAP Magat	50%
SNAP Benguet	50%
Generation: Others	
WMPC	20%
SPPC	20%
CPPC	60%
EAUC	50%
STEAG Power	34%
TPI	100%
CEDC	26%
RP Energy	50%
Distribution	
DLPC	99.9%
Hijos de F. Escano Inc.	46.7%
VECO	55.1%
CLPC	99.9%
Pampanga Energy Ventures Inc.	42.8%
SFELAPCO	43.8%
SEZ	100%
MEZ	100%
BEZ	100%
Services	
AESI	100%

Only about 43.0% of the Company's 55.0% ownership interest in VECO is held directly by the Company. The remaining 12.0% is indirectly held by the Company through Hijos de F. Escaño, Inc., which owns approximately 25.0% of the outstanding capital stock of VECO. The Company is a stockholder of Hijos de F. Escano.

Likewise, only 20.0% of the Company's 43.8% ownership in SFELAPCO is held directly by the Company. The rest is held by the Company through Pampanga Energy Ventures, Inc. The Company is a stockholder of Pampanga Energy Ventures, Inc.

GENERATION OF ELECTRICITY

The Aboitiz Group has extensive experience in developing, financing, building and operating power generation facilities throughout the country, particularly hydroelectric power generation facilities. AP is the largest Filipino-owned private sector company in terms of installed hydroelectric power generation capacity. AP has successfully purchased generation assets at favorable prices from both government and the private sector.

Since its incorporation in 1998, AP has accumulated interests in both hydroelectric power generation plants and thermal plants. As of December 31, 2008, 64% of AP's net income is derived from its power generation business. AP conducts its power generation activities through the following subsidiaries and affiliates:

The table below summarizes the Generation Companies' operating results as of December 31, 2008.

Generation Companies	Energy Sold 2007	Energy Sold 2008	Revenue 2007	Revenue 2008
	(in GWh)		(in Million Pesos)	
Philippine Hyrdopower Corp.				
Hedcor Inc.	162	170	743	618
Luzon Hydro Corp.	279	301	1,836	1,088
SN Aboitiz Magat (1)	717	1,036	3,632	4,604
SN Aboitiz Benguet (2)	N/A	208	N/A	885
Western Mindanao Power	157	107	1,238	1,284
Southern Phils Power	175	164	658	691
Cebu Private Power Corp. (3)	241	296	1,755	2,367
East Asia Utilities Corp. (4)	264	202	1,569	1,579
STEAG State Power (5)	1,405	1,330	4,774	6,265
Davao Light & Power Co., Inc. (6)	3	6	Revenue neutral	Revenue neutral
Cotobato Light and Power Company (6)	0	0	Revenue neutral	Revenue neutral
TOTAL	**3,403**	**3,820**	**16,205**	**19,381**

(1) The Magat plant was turned over to SNAP Magat by PSALM on April 26, 2007.

(2) The Ambuklao-Binga plants were turned over to SNAP Benguet by PSALM on July 10, 2008.

(3) Acquired 60.0% ownership interest last April 20, 2007.

(4) Acquired 50.0% ownership interest last April 20, 2007.

(5) Acquired 34.0% ownership interest last November 15, 2007.

(6) Plants are operated as stand-by plants and are revenue neutral, with costs for operating each plant recovered by DLPC and CLPC, as the case may be, as approved by the ERC

Philippine Hydropower Corporation ("PHC")

AP, a leader in the hydroelectric power industry in the Philippines, holds all its investments in hydropower generation through PHC, a wholly owned subsidiary,. PHC owns equity interests in the following hydroelectric companies:

(a) 100% equity interest in Hedcor, which operates 15 mini-hydroelectric plants (plants with less than 10MW in installed capacity) in Benguet province in Northern Luzon and in Davao City in Southeastern Mindanao with a total installed capacity of 38.2 MW.

(b) 50.0% equity interest in LHC, which operates the 70 MW Bakun AC hydroelectric plants in Ilocos Sur province in Northern Luzon. Under the terms of the Bakun Power Puchase Agreement (Bakun PPA), the generating capacity of the Bakun plant is contracted to NPC for a period of 25 years beginning in February 2001.

(c) 50.0% effective interest in SNAP-Magat, a joint venture with SN Power, a leading Norwegian power company which operates the 360 MW Magat hydroelectric plant in Isabela in Northern Luzon.

(d) 50.0% effective interest in SNAP-Benguet, which operates the 175 MW Ambuklao-Binga Hydroelectric Power Plant Complex in Northern Luzon.

(e) 100% equity interest in Hedcor Sibulan, Inc., which is currently constructing the 42.5 MW Sibulan hydroelectric project in Santa Cruz, Davao del Sur.

(f) 100% equity interest in Hedcor Tamugan, Inc., which will build the 27.5 MW Tamugan hydropower project in Davao City.

Since beginning operations in 1998, the Company has been committed to developing expertise in renewable energy technologies, as evidenced by its focus on, and extensive experience in, Run-of-river hydroelectric plants. The Company's management believes that due to growing concerns on the environmental impact of power generation using traditional fossil fuel energy sources, greater emphasis will be placed on providing adequate, reliable, and reasonably priced energy through innovative and renewable energy technologies such as hydroelectric and geothermal technologies. As such, a significant component of the Company's future projects are expected to focus on those projects that management believes will allow the Company to leverage its experience in renewable energy and help maintain the Company's position as a leader in the Philippine renewable energy industry.

Hedcor, Inc. ("Hedcor")

Hedcor was originally incorporated on October 10, 1986 by ACO as the Baguio-Benguet Power Development Corporation. PHC acquired its 100.0% ownership interest in Hedcor in 1998. In 2005, the Aboitiz Group consolidated all of its mini-hydroelectric generation assets, including those developed by HEDC and NORMIN, in Hedcor. Hedcor currently owns, operates and/or manages 15 mini–hydroelectric Run–of–river type plants in Northern Luzon and Davao City in Southeastern Mindanao with a combined installed capacity of 38.2 MW. All electricity generated from Hedcor's mini-hydroelectric plants are sold to the NPC, SFELAPCO, DLPC, Philex Mining Corporation (Philex) and Benguet Electric Cooperative (BENECO) pursuant to power purchase agreements with the said offtakers.

Hedcor, used to have a 50% equity interest in LHC until it transferred its equity stake to its parent company, PHC, through a property dividend declaration in September 2007.

Operations Review

The following table sets forth certain information relating to Hedcor's principal facilities in operation as of December 31, 2008.

Plants	Installed Capacity (in MW)	Energy Generation (KWh)	
		December 31, 2008	December 31, 2007
Irisan	1.2	4,913,742	4,268,374
Bineng 1	3.2	10,077,125	9,119,160
Bineng 2	1.8	7,045,486	6,657,247
Bineng 2b	0.7	2,885,379	2,702,793
Bineng 3	4.5	15,744,734	14,024,072
Ampohaw	8.0	41,683,835	36,740,848
FLS	5.9	27,354,491	25,991,861
Lon-oy	3.6	14,661,463	14,559,735
Lower Labay	2.4	9,391,238	12,561,477
Sal-angan	2.4	8,687,068	7,432,310
Talomo 1	1.0	5,567,532	5,547,880
Talomo 2A	0.7	5,065,400	4,552,703
Talomo 2B	0.3	2,324,422	2,207,624
Talomo 2	0.6	4,394,728	3,912,024
Talomo 3	1.9	10,582,286	12,017,064
Total	**38.2**	**170,378,929**	**162,295,172**

During the full year 2007 and 2008, Hedcor's mini hydroelectric plants generated a total of 162.3 GWh and 170.4 GWh, respectively.

Northern Luzon's climate is classified as having two pronounced season; dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year.

Power Offtakers

The following table sets out certain information regarding the Power Supply Agreements for Hedcor's mini-hydroelectric plants.

Plants	Customer	Pricing Formula	Price as of Dec. 31, 2008	Price for 2007	Expiration of PPA
Irisan	SFELAPCO	92.0% Generation Charge and Coincident Peak Demand Charge	3.6639	4.7766	2008 but renewed at the end of each billing month
Bineng 1	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018

Plants	Customer	Pricing Formula	Price as of Dec. 31, 2008	Price for 2007	Expiration of PPA
Bineng 2	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
Bineng 2b	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
Bineng 3	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
Ampohaw	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
FLS	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
Lon-oy	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
Lower Labay	NPC	88.0% of Grid Rate (Generation Charges plus Transco charges) times 88.0%	3.6890	4.9294	January 2018
Sal-angan	Philex	85.0% of avoided cost	2.8665	4.0910	December 2009
Talomo 1	DLPC	95.0% of avoided cost	3.0904	3.3364	February 2011
Talomo 2A	DLPC	100% generation charge plus coincident Demand Charge	2.7888	3.0422	February 2021

Plants	Customer	Pricing Formula	Price as of Dec. 31, 2008	Price for 2007	Expiration of PPA
Talomo 2B	DLPC	100% generation charge plus coincident Demand Charge	2.7888	3.0422	February 2021
Talomo 2	DLPC	100% generation charge plus coincident Demand Charge	2.7888	3.0422	February 2021
Talomo 3	DLPC	100% generation charge plus coincident Demand Charge	2.7888	3.0422	February 2021

Certificate of Compliance (COC)

Pursuant to Section 6 of EPIRA, wherein a generation company prior to operation must secure from the ERC a certificate of compliance pursuant to the standards provided under the same Act, Hedcor has secured the necessary COC for all the hydropower plants and related infrastructures. These certificates signify Hedcor's compliance with all the requirements stipulated under EPIRA, the Philippine Grid and Distribution Code, WESM Rules, and all other laws, rules, and regulations. The following are the COCs issued to Hedcor:

COC No.	Plant Location	Date of Issuance
03-11-GXT 33-0033	Tadiangan, Tuba, Benguet/ Nangalisan, Tuba, Benguet/ Ampucao, Itogon, Benguet/ Bito, La Trinidad, Benguet/ Banengbeng, Sablan, Benguet/ Calinan, Davao City	December 7, 2006
03-11-GXT 32-0032	Bakun Central, Bakun, Benguet/ Ampusongan, Bakun, Benguet	December 7, 2006
05-02-GXT 286b-0331	Brgy. Mintal, Tugbok District, Davao City/ Brgy. Catalunan Pequeno, Davao City	February 26, 2007

A COC is valid for a period of five (5) years from the date of issuance.

Water Rights

Under Philippine law, all bodies of water, such as rivers, creeks and lakes are considered property of the Government. Therefore, in addition to obtaining a COC from the ERC to operate power generation facilities, Hedcor must also obtain water permits from the NWRB.

These permits specify the source of the water flow that Hedcor can use for the relevant Run-of-river generation facility, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and generally are not terminated by the Government as long as the holder of the permit complies with the terms of the permit regarding the use of the water flow (in Hedcor's case, to generate electricity) and the allowable volume.

The table below sets out the water permits that have been issued to Hedcor, and which give Hedcor the right to use the water flow from the rivers specified in the permits to generate electricity.

Permit Number	Source of Water Flow	Plant	Allowable Volume
12196	Talomo River	Upper Talomo	6,000 (Jan. to Dec.)
14903	Sal-angan River	Sal-angan Plant	234 (Nov. to May) 7,011 (June to Oct.)
14901	Elew River	Sal-angan Plant	146 (Dec. to May) 2,150 (June to Nov.)
14902	Elew River	Sal-angan Plant	146 (Dec. to May) 1,747 (June to Nov.)
12853	Balili River	Bineng Plants, Ampohaw	153 (Dec. to May) 1,371 (June to Nov.)
12854	Balili River	Bineng Plants, Ampohaw	150 (Dec. to May) 1,246 (June to Nov.)
13203	Balili River	Bineng Plants, Ampohaw	148 (Dec. to May) 1,540 (June to Nov.)
13263	Upper Takbo River	FLS Plant	3,240 (Dec. to May) 3,363 (June to Nov.)
13265	Lon-oy River	Lon-oy Plant	1,430 (Dec. to May) 1,500 (June to Nov.)
13268	Lower Labay River	Lower Labay Plant	2,280 (Dec. to May) 2,598 (June to Nov.)
14763	Balili River	Bineng Plants, Ampohaw	3,133 (Jan. to Dec.)
12730	Ampohaw River	Ampohaw Plant	720 (Dec. to May) 3,661 (June to Nov.)

Hedcor's plants are operated by Hedcor's in-house engineers and operations personnel. Upgrades, repairs and maintenance to Hedcor's plants are planned consistent with its business strategies and undertaken either through third-party sub-contractors or by in-house personnel. Hedcor's in-house capabilities include a fabrication shop for the mechanical requirements of each plant. Hedcor also has a testing group that maintains critical electrical components such as transformers and generators. In addition, Hedcor has a technical services department that has personnel knowledgeable in computer-assisted design and drafting, surveying and hydroelectric plant design. This department is responsible for ensuring that the civil works components of Hedcor's plants are in good working order. For operational and technical issues that cannot be handled in-house, such as geological investigations and design work for large embankments, Hedcor engages the services of experienced outside consultants.

Power Transmission

Hedcor currently has two transmission service agreements ("TSAs") with Transco. The first TSA allows Hedcor to use Transco's transmission facilities to supply SFELAPCO from Hedcor's Irisan mini-hydroelectric plant in Benguet province. The second TSA allows Hedcor to use Transco's transmission facilities to supply ancillary services to DLPC from Hedcor's Upper and Lower Talomo plants, and which expires on January 19, 2015. The contracted maximum demand for the TSA relating to SFELAPCO is 1,200 kW. The contracted maximum demand for the TSA relating to the Upper and Lower Talomo plants is 4,470 kW.

Hedcor Sibulan, Inc. ("Hedcor Sibulan")

Hedcor Sibulan, a wholly owned subsidiary of PHC, is the project company of the Sibulan hydropower project. The project, which started construction in June 25, 2007, entails the construction of two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur. The total project cost is approximately ₱5.1 billion, which includes capital expenditures needed to construct access roads and transmission facilities. The Sibulan project is expected to be completed and commercially operational by October 2009.

Hedcor Sibulan is part of a consortium that won the competitive bidding for the 12-year power supply agreement to supply 400,000,000 kWh per annum of new capacity to DLPC starting August 2009. The bid price for the contracted energy was ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index. All the energy generated by the Hedcor Sibulan power plants will be supplied to DLPC pursuant to the power supply agreement signed on March 7, 2007.

A Certificate of Water Availability for the Sibulan Project was secured from the Natural Water Resources Board in May 12, 2005, which is one of the bases in the issuance of the required water permits for the Project. These water permits allow Hedcor Sibulan to legally utilize the water resources necessary for the Project. The following are the tributaries contributing to the Sibulan Project as well as their corresponding permits:

Plant	Water Permit No.	Source / Location	Amount Granted (lps)	Date of Issuance
Plant A	20638	Baroring Creek	2,606.44 (Oct-Dec) 2,252.97 (Jan-Sep)	February 22, 2006
	20636	Sibulan River	2,626.87 (Oct-Dec) 2,270.63 (Jan-Sep)	February 22, 2006, amended on June 20, 2007
Plant B	20637	Tomari Creek	627.73	February 22, 2006
	20639	Balangaan Creek	680.45	February 22, 2006
	20634	Baracatan Creek	844.25	February 22, 2006
	20635	Main Sibulan River	7,862.53 (Oct-Dec) 6,796.25 (Jan-Sept)	February 22, 2006, amended on June 20, 2007

Hedcor Sibulan requested for an increase in volume of 949.43 liters per second to be utilized from the Sibulan River and 949.43 liters per second from the Main Sibulan River. On November 13, 2006, NWRB issued an Internal Memorandum recommending the requested additional volume to the approved water discharge for the Project. A resolution was issued by the NWRB on June 20, 2007 approving the request.

The Sibulan Project is registered as a clean development mechanism project with the United Nations Framework Convention on Climate Change under the Kyoto Protocol allowing for the sale of its carbon credits.

Hedcor Tamugan, Inc. ("Hedcor Tamugan")

Hedcor Tamugan, a wholly owned subsidiary of PHC, is the project company, which proposes to build the Tamugan hydropower project. The project will involve the construction of two (2) Run-of river hydroelectric plants, each one located within the city boundaries of Davao City. Latest estimates indicate that the two (2) plants will be capable of generating up to 27.5MW of electricity. The project shall be commenced once all government permits are obtained.

Hedcor Tamugan is part of a consortium that won the competitive bidding for the 12-year power supply agreement to supply 400,000,000 kWh per annum of new capacity to DLPC starting August 2009. The bid price for the contracted energy was ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index. All the energy generated by the Hedcor Tamugan power plants will be supplied to DLPC pursuant to the power supply agreement signed on March 7, 2007.

Luzon Hydro Corporation ("LHC")

LHC is PHC's joint venture company with PHPL. LHC operates and manages, under a BOT scheme, the 70 MW Bakun AC hydroelectric project, which is located within the 13,213 hectare watershed area of the Bakun River in Ilocos Sur province in Northern Luzon. The plant is a Run–of–river hydroelectric power plant which taps the flow of the neighboring Bakun River to provide the plant with its generating power, with water from the upper reaches of the Bakun River diverted through an 11-meter high weir into a 9.6-kilometer tunnel that is cut through the Cordillera Mountains. The water goes from the tunnel into the

power station, which uses four 18 MW twin jet Pelton turbines, two 44 MVA synchronous generators and two 44 MVA 13.8/230 KV transformers to convert the energy of the flowing water into electricity. The water then exits the power station back into the same stream it was diverted from approximately 535 meters below the level of the weir.

Energy produced by the plant, which commenced commercial operations in April 2001, is delivered and taken up by NPC pursuant to the Bakun PPA entered in November 1996 and dispersed to NPC's Luzon Power Grid. Under the terms of the Bakun PPA, all of the electricity generated by the Bakun plant will be purchased by NPC for a period of 25 years from February 2001. The Bakun PPA also requires LHC to transfer the Bakun plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC.

Shareholders

LHC is 50.0% owned by PHC and 50.0% owned by PHPL, which is a privately owned Australian company that specializes in developing and operating power projects that use renewable energy sources, principally water and wind power.

An amended and restated shareholders' agreement dated March 11, 2002 governs the relationship between PHC and PHPL. Among other matters, the agreement grants each of PHC and PHPL proportional representation on the board of directors of LHC, provides for the establishment of an executive and management committee that will oversee LHC's operations and sets out a dividend policy reflecting a maximum return of PHC's and PHPL's respective investments in LHC. The agreement also grants each party a right of first refusal over the other party's ownership interest in LHC and sets out a mechanism for resolving any shareholder disputes.

Operations Review

The following table summarizes the Bakun plant's operating statistics for the past three years:

	2008	**2007**	**2006**
Energy Generation (GWh)	327.6	271.8	253.8
Net Capacity Factor (%)	49.24	44.13	41.15
Availability (%)	95.35	99.88	99.35
Reliability (%)	95.33	99.62	99.3

The Bakun plant typically generates less electricity during the first four or five months of the year and during December. Generation usually begins increasing during the months of May to November, and is highest during the months of August and September, the height of the rainy season. The seasonality of Bakun's electricity generation means that during the months when dispatch levels are lower the fees paid to LHC pursuant to the Bakun PPA are also lower.

The Bakun plant has been designed to allow optimized operation at maximum capacity when high water flow occurs and has historically operated at high reliability throughout each year, including during the peak of the rainy season. LHC has also implemented a system pursuant to which the management and operation of the Bakun plant are monitored in order to ensure the efficient conversion of water to electricity. This has helped ensure that the Bakun plant achieves high availability factors throughout the year.

Power Offtaker

Under the terms of the Bakun PPA, NPC is obligated to purchase, all the electricity generated by the Bakun plant. The Bakun PPA provides that NPC will pay LHC "capacity fees", "energy fees" and "operating fees" all of which must be paid even if NPC is unable to receive the electricity generated due to transmission constraints. As of December 31, 2008, NPC has paid amounts due under the Bakun PPA in a timely manner.

Capacity fees consist of the "capital recovery fee" and the "service fee." The capital recovery fee is payable in U.S. dollars and payments of the capital recovery fee were "front-loaded" over the first ten contract years of the Bakun PPA in order to allow LHC to service its debts.

The capital recovery fee for the first contract year under the Bakun PPA, which began in February 2001, was US$90.00/kW per month and this amount declines by approximately US$5.70/kW per month during the first seven contract years under the Bakun PPA. The capital recovery fee for the contract year ending in February 2007 was US$61.05/kW per month. The capital recovery fee for the contract year ending in February 2008, which is the seventh contract year under the Bakun PPA, will be US$55.38/kW per month and will decline to US$12.01/kW per month for the contract year ending in February 2009. In the tenth contract year under the Bakun PPA, the capital recovery fee will be the US$9.87/kW per month and will thereafter be reduced to nil for the remaining years of the Bakun PPA. NPC also pays LHC a service fee that is payable in U.S. dollars at a rate of US$25/kW per month. The energy fee is also payable in U.S. dollars at a rate of US$0.0365/kWh of electricity generated over and above the equivalent energy of the contracted capacity. NPC is not obligated to pay the energy fee during situations when the Bakun plant fails to generate electricity in excess of the equivalent energy of the contracted capacity.

Operating fees consist of the "operating/maintenance fee" and the "watershed management fee." The operating/maintenance fee is payable in U.S. dollars at a rate of US$13.22/kW per month. The watershed management fee is payable in pesos at a rate of ₱0.015/kWh for the first 60 months after February 2001 and ₱0.020/kWh for the next succeeding 240 months.

The amount of capital recovery fee, service fee and operating/maintenance fee payable each month is determined by multiplying the monthly contracted fee amount by the contracted capacity for such month, as adjusted by a factor, "F", which is determined by comparing the Bakun plant's monthly contracted capacity with its equivalent capacity for that month based on actual generation. The equivalent capacity is the actual energy generated by the Bakun plant plus the energy attributable to any "allowable downtime" (as discussed below), which total amount is then divided by the running time, the product of 24 hours and number of days in a month. If the Bakun plant's contracted capacity is less than its equivalent capacity, "F" will be considered equal to one and LHC will receive the product of the monthly capital recovery fee multiplied by the contracted capacity. If the Bakun plant's contracted capacity is greater than its equivalent capacity, "F" will be the ratio of the equivalent capacity to the contracted capacity and LHC will receive the product of the monthly capital recovery fee multiplied by the contracted capacity and by the "F" factor.

Under the terms of the Bakun PPA, LHC continues to be paid by NPC at the rate specified above for periods of "allowable downtime," which are days when LHC is permitted to undertake scheduled maintenance activities on the Bakun plant and other periods during which LHC is unable to deliver electricity to NPC due to circumstances that are not attributable to the fault of LHC. The Bakun PPA allows LHC to schedule 15 maintenance days during each contract year, with any unused scheduled maintenance days being carried over to the next contract year. The Bakun PPA also permits LHC to designate two contract years where it will be able to have up to 60 scheduled maintenance days. LHC designated 2005 as one of the contract years where it could have up to 60 scheduled maintenance days, which allowed it to undertake extended repair and maintenance work on the Bakun plant and to complete the diversion of a portion of the Kayapa Creek to provide additional water flow for the Bakun plant.

LHC usually applies and utilizes its allowable downtime during the summer months, when hydrology is at its lowest. This enables LHC to undertake normal repair and maintenance on the Bakun plant and its

equipment while at the same time generating more revenue than the actual hydrology would allow it to generate. Furthermore, because water flow during the summer months is low, the Bakun plant can continue operating with only one generating unit and one turbine while the other turbine units are being serviced, thereby allowing the plant to continue generating revenue.

Water Rights

The Bakun PPA obligates NPC to obtain, at its own cost, any and all water rights required by LHC for the Bakun plant. Pursuant to the terms of the PPA, NPC has obtained three water permits from the NWRB that allow LHC to have a flow of up to 20,990 liters per second from the Bakun River throughout the year to be used to generate electricity. Two of the water permits were issued in August 27, 1993 and the third was issued in June 10, 1997. Under the terms and conditions of the water permits, they will continue to be valid for as long as the water is beneficially used to generate electricity.

In 2004, the Company and PHPL, through Cordillera Hydro Corporation, developed and financed a supplemental water project involving the diversion of a portion of the Kayapa Creek into the Bakun plant in order to provide additional water flow for the Bakun plant. The diversion was completed in June 2005 at a cost of ₱561.8 million.

The Bakun PPA requires NPC to ensure that the Bakun River watershed area is established as a watershed reservation to maintain its usefulness as a source of water for the Bakun plant. In turn, LHC is required to undertake a watershed management program as set out in the Bakun PPA, the objectives of which include helping reforest approximately 4,000 hectares of open and denuded areas in the watershed area, improving 2,500 hectares of upland farms within the watershed area and encouraging community participation inthe development and preservation of the watershed area.

LHC also coordinates and cooperates with the local communities around the Bakun plant for the preservation of the Bakun River watershed. LHC enlists the aid of local residents for tree plantings and to monitor the condition of tree plantations throughout the watershed area. Local residents also help LHC ensure that the land comprising the watershed area is not denuded by illegal loggers or by subsistence farmers who utilize slash and burn farming methods.

Performance Undertaking

As required under the PPA, the Government issued a performance undertaking dated February 4, 1997 (the “Performance Undertaking”) to LHC. Referring to the Bakun PPA, the Performance Undertaking states that the obligations of NPC under the Bakun PPA carry the full faith and credit of the Republic of the Philippines, and that the Republic of the Philippines will ensure that NPC will be able to discharge, at all times, such obligations as they become due. The Performance Undertaking further states that NPC’s obligations are affirmed and guaranteed by the Republic of the Philippines.

As of the December 31, 2008, LHC has not made any claims on the Performance Undertaking.

Operations and Maintenance

O&M services for the Bakun plant are provided by LHC’s technical staff, which is comprised of qualified engineers who receive on-the-job training and also include engineers who have worked on the Company’s other hydroelectric plants. Having PHPL as the Company’s joint venture partner for LHC also allows LHC to leverage PHPL’s extensive technical experience and expertise in the operation of hydroelectric generation facilities for LHC’s O&M activities, such as having PHPL personnel ready to assist members of LHC’s technical staff.

The Bakun PPA requires LHC to run an annual capacity test to check the kW capacity of the Bakun plants generating units. As of the December 31, 2008, the Bakun plant’s generating units have attained and maintained the required contracted capacity specified in the Bakun PPA.

Power Transmission

Under the terms of the PPA, NPC is responsible for the transmission of electricity generated by the Bakun plant to the Luzon Grid. NPC takes delivery of electricity from the Bakun plant at the high voltage side of the main power transformer of the plant.

Financing and Capital Expenditures

Funding for the construction of the Bakun plant was provided using a mix of debt and equity. Total limited recourse project financing incurred by LHC to construct the plant was US$105 million. In November 2006, LHC secured an additional US$65.0 million in limited recourse financing, a portion of which was used to repay the remaining balance of LHC's original US$105 million project finance loan.

SN Aboitiz Power-Magat Inc. ("SNAP-Magat")

SNAP-Magat is PHC's joint venture company with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa and Latin America. On December 14, 2006, SNAP-Magat participated in and won the bid for the 360 MW Magat hydroelectric power plant (the Magat Plant) conducted by PSALM for a bid price of US$530 million.

The Magat Plant, which is located at the border of Isabela and Ifugao provinces in Northern Luzon, was completed in 1983. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is ideally suited to act as a peaking plant with opportunities to capture the significant upside potential that can arise during periods of high demand.

The Magat Plant has the ability to store water equivalent to one month of generating capacity, allowing for the generation and sale of electricity at the peak hours of the day, which command premium prices. Magat's source of upside, water as a source of fuel and the ability to store it, is also its source of limited downside. This hydroelectric asset has minimal marginal costs granting it competitive advantage in terms of economic dispatch order versus other fuel-fired power plants that have significant marginal cash costs. SNAP-Magat sells most of the electricity generated by the Magat Plant through the WESM.

SNAP-Magat obtained BOI approval of its application as the new operator of the 360MW Magat plant with a pioneer status that entitles SNAP to an income tax holiday.

Most of the land underlying the Magat plant was untitled public land that PSALM converted into titled land to be registered in its name. This land was leased by SNAP-Magat from PSALM. A portion of the land underlying the Magat plant is in the name of NIA. This portion is being leased by SNAP-Magat from NIA under terms and conditions provided under the O&M Agreement. On March 23, 2007, President Arroyo issued a presidential proclamation reserving and granting NPC ownership over certain parcels of public land in Isabela province and instructing the DENR to issue a special patent over the untitled public land on which the Magat plant is situated, subject to the Magat land lease agreement between SNAP-Magat and PSALM. The land which was titled in 2007 was eventually bought by SNAPMagat.

Loan Facility

In September 2007, SNAP-Magat entered into a US$380 million loan agreement with a consortium of international and domestic financial institutions which include the International Finance Corporation, Nordic Investment Bank, Banco de Oro – EPCI, Inc., Bank of the Philippine Islands, China Banking Corporation, Development Bank of the Philippines, The Hong Kong and Shanghai Banking Corporation Limited, Philippine National Bank and Security Bank Corporation. The US$380 million loan consists of a dollar tranche of up to US$152 million, and a peso tranche of up to ₱10.1 billion. The financing agreement was hailed as the region's first-ever project finance debt granted to a merchant power plant. It won Project Finance International's Power Deal of the Year and Asset's Best Project Finance Award as well as Best Privatization Award.

The loan was used to partially finance the deferred balance of the purchase price of the Magat Plant under the Asset Purchase Agreement with PSALM. Part of the loan proceeds was also used to refinance SNAP-Magat's US$159 million loan from AEV and its advances from its shareholders used to acquire the Magat Plant.

Operations Review

The following table summarizes SNAP-Magat's operating statistics for 2007 and 2008.

	2008	2007
Energy Generation (GWh)	948.9	669.6
Net Capacity Factor (%)	30.0%	31.0%
Availability (%)	66.3%	88.3%

Ownership Structure for SNAP-Magat

SNAP-Magat is a special purpose joint venture company, which is 60.0% owned by MORE and 40.0% by SN Power Holding Singapore Pte. Ltd., subsidiary of SN Power.

In turn, MORE is 83.3% owned by PHC, which is wholly-owned by the Company, and 16.7% owned by SN Power Holding Singapore Pte. Ltd. There are separate shareholder agreements for the management and operation of SNAP-Magat and MORE.

On April 18, 2007, SN Power Holding Singapore Pte Ltd., MORE and SNAP-Magat entered into an agreement amending the Shareholders' Agreement dated May 11, 2006 (First Amendment). The First Amendment amended SNAP-Magat's capital structure to provide for Series B Preferred Shares.

The First Amendment replaced the definitions of a) Shares or Capital Stock; b) Authorized Capital – Financial Closing, c) Series A Preferred Shares, d) Use of Capital Contribution; e) Transfer to Director Nominees; and f) Equity Waterfall. The agreement further amended the Shareholder's Agreement by adding that the issuance and redemption of Series B Preferred Shares requires super majority approval.

MORE Shareholders' Agreement

In May 2006, PHC, SN Power Holding Singapore Pte. Ltd. and MORE entered into a shareholders' agreement ("MORE Shareholders' Agreement") for the management and operation of MORE. Management of MORE is vested in its Board of Directors, but the affirmative vote of SN Power Holding Singapore Pte. Ltd. is required for the approval of certain corporate actions.

Under the Amended and Restated MORE Shareholders' Agreement, PHC and SN Power Holding Singapore Pte. Ltd. are issued different classes of common shares to identify each shareholder's share ownership. The ownership of the common shares held by PHC is limited to Philippine Nationals while the ownership of the common shares held by SN Power Singapore Pte. Ltd. is limited to non-Philippine Nationals. The MORE Shareholders' Agreement also authorizes the issuance of a series of interest-bearing preferred shares to a shareholder in the event that: (a) such shareholder is required to contribute another shareholder's share of any capital calls made by MORE, including such other shareholder's advances prior to financing, which creates a shortfall of paid-in capital for MORE; or (b) the other shareholder or its affiliate commits any breach of the terms, conditions, representation, warranties or covenants of the financing documents. Transfers of shares in MORE are subject to a right of first refusal. In case of a breach of the MORE Shareholders' Agreement, the non-defaulting stockholder is given the option to purchase all the MORE shares of the defaulting party or require the defaulting party to purchase all of the non-defaulting party's shares in MORE.

SNAP-Magat Shareholders' Agreement

In May 2006, MORE, SN Power Holding Singapore Pte. Ltd. and SNAP-Magat entered into a shareholders' agreement ("SNAP-Magat Shareholders' Agreement") for the management and operation of SNAP-Magat. Among other terms and conditions, the Amended SNAP-Magat Shareholders' Agreement requires MORE and SN Power Holding Singapore Pte. Ltd. to infuse capital into SNAP in order to comply with the conditions of any bank financing required for the acquisition of the Magat hydroelectric plant. In consideration for such capital contributions, the SNAP-Magat Shareholders' Agreement requires SNAP-Magat to issue to MORE and SN Power Holding Singapore Pte. Ltd. a class of redeemable preferred shares in proportion to their respective ownership interests in SNAP-Magat, with each holder of this class of preferred shares having a preference in dividend payments. The SNAP-Magat Shareholders' Agreement also authorizes the issuance of a series of interest-bearing preferred shares to a shareholder in the event it is required to contribute another shareholder's share of any capital calls made by SNAP-Magat. These preferred shares are also given priority in any distribution of profits by SNAP-Magat.

Management of SNAP-Magat is vested in its board of directors, but a super-majority vote of directors and stockholders is required for the approval of certain corporate actions. Transfers of shares in SNAP-Magat are subject to a right of first refusal. In case of a breach of the SNAP-Magat Shareholders' Agreement, the non-defaulting stockholder is given the option to purchase all the SNAP-Magat shares of the defaulting party or may compel the defaulting party to purchase all of the non-defaulting party's shares in SNAP-Magat.

On April 18, 2007, SN Power Holding Singapore Pte Ltd., MORE and SNAP entered into an agreement amending the Shareholders' Agreement dated May 11, 2006 (First Amendment). The First Amendment amended SNAP's capital structure to provide for Series B Preferred Shares.

The First Amendment replaced the definitions of a) Shares or Capital Stock; b) Authorized Capital – Financial Closing, c) Series A Preferred Shares, d) Use of Capital Contribution; e) Transfer to Director Nominees; and f) Equity Waterfall. The agreement further amended the Shareholder's Agreement by adding that the issuance and redemption of Series B Preferred Shares requires super majority approval.

Power Offtaker

Approximately thirteen percent (13.0%) of SNAP-Magat's generating capacity is contracted under offtake agreements, which it assumed pursuant to the terms of the Asset Purchase Agreement of the Magat Plant with PSALM. These agreements require SNAP-Magat to provide electricity to NIA. The balance of SNAP-Magat's capacity is dispatched through the WESM.

The Company believes that as a hydroelectric facility that can be started up in a short period of time, the Magat hydroelectric plant is ideally suited to act as a peaking plant with opportunities to capture the significant upside potential that can arise during periods of high demand. The Company and SNAP-Magat are currently evaluating various options in order to increase the efficiency, capacity and flexibility of the Magat plant.

Pricing of Magat in the WESM

As opposed to the existing framework of PPAs or bilateral contracts between NPC or other offtakers, on the one hand, and power generators, on the other hand, the WESM provides for a more competitive framework for the purchase of power. In the period that SNAP Magat has been trading in the spot market, it has managed to be dispatched at prices higher than the load weighted average price of WESM for such period.

Water Rights

Water rights for Magat that was initially issued to NPC has been transferred initially to SN Aboitiz Power Inc., SNAP-Magat's original name. SNAP-Magat's petition for the transfer in its favor of the water permit for the Magat plant's water supply was approved last January 28, 2008.

SN Aboitiz Power-Benguet Inc. ("SNAP-Benguet")

SNAP-Benguet (formerly SN Aboitiz Power Hydro, Inc.) is a consortium between PHC and SN Power. On November 28, 2007, SNAP-Benguet submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex, which consists of the 75 MW Ambuklao Hydroelectric Power Plant ("Ambuklao Plant") located in Bokod, Benguet and the 100 MW Binga Hydroelectric Power Plant ("Binga Plant") located in Itogon, Benguet. The price offered amounted to US$325 million. PSALM issued the Notice of Award ín December 19, 2007, officially declaring SNAP-Benguet as the winning bidder for the Ambuklao-Binga generation facilities.

The Ambuklao-Binga Hydroelectric Power Complex was turned over to SNAP-Benguet on July 10, 2008. In August 2008, SNAP-Benguet signed a $375 million loan agreement with a consortium of local and foreign banks where US$160 million will be taken up as US dollar financing and the equivalent of US$215 million in Peso financing. Proceeds from the facility were used to partially finance the purchase price and the rehabilitation of the power plant complex and refinance SNAP-Benguet's existing advances from shareholders with respect to the acquisition of the assets.

SNAP-Benguet obtained BOI approval of its application as the new operator of the Ambuklao and Binga plants with a pioneer status that entitles it to a six year income tax holiday commencing from date of registration.

Operations Review

The 100 MW Binga plant is operating with estimated annual generation capacity at 400 GWh. The Binga plant will be rehabilitated and expanded over a period of 4 years. Such rehabilitation and expansion is expected to commence after completion of works in Ambuklao. The 75 MW Ambuklao plant will be fully rehabilitated and expanded in approximately 28 months with the capacity seen to increase to 105 MW. Once completed, the combined capacity of the Ambuklao and Binga plants will increase by approximately 30.0% to 225 MW with combined annual generation of approximately 760 GWh. Total rehabilitation cost and capital expenditure for expansion estimated at US$280 million. SNAP-Benguet is in the process of registering the Ambuklao expansion as a clean development mechanism project with the United Nations Framework Convention on Climate Change under the Kyoto Protocol to allow sale of carbon credits.

The Ambuklao-Binga hydroelectric power plants have the ability to store water equivalent to two weeks of generating capacity, allowing for the generation and sale of electricity at the peak hours of the day which command premium prices. Ambuklao-Binga's source of upside, water as a source of fuel and the ability to store it, is also its source of limited downside. This hydro asset has minimal marginal costs granting it competitive advantage in terms of economic dispatch order versus other fuel-fired power plants that have significant marginal cash costs.

The following table summarizes SNAP-Magat's operating statistics for 2007 and 2008.

	2008
Energy Generation (GWh)	219.7
Net Capacity Factor (%)	52.6%
Availability (%)	89.8%

Pricing of Binga in the WESM

The entire generating capacity of the Binga plant is dispatched through the WESM. As opposed to the existing framework of PPAs or bilateral contracts between NPC or other offtakers, on the one hand, and power generators, on the other hand, the WESM provides for a more competitive framework for the purchase of power. In the period that SNAP-Benguet has been trading in the spot market, it has managed to be dispatched at prices higher than the load weighted average price of WESM for such period.

East Asia Utilities Corporation ("EAUC")

On April 20, 2007, AP acquired a 50.0% ownership interest in EAUC from El Paso Philippines which still owns the other 50.0% of EAUC. EAUC was incorporated in February 18, 1993 and since 1997 has operated a Bunker C-fired power plant with an installed capacity of 50MW within the MEPZ I in Mactan Island, Cebu. Pursuant to the Power Supply and Purchase Agreement (PSPA), as amended, with the PEZA, the EAUC plant is the sole provider of electricity to MEPZ I, delivering reliable, high quality power to meet the stringent requirements of semiconductor firms, electronics manufacturers and other locators within the economic zone. The PSPA is for a term of 15 years beginning December 31, 1997.

On February 7, 1995, EAUC entered into a lease contract with PEZA for the lease of a portion of land within MEPZ 1. The term of the lease is for 25 years commencing from December 1, 1993. Rental for the leased property is on a per square meter per month basis, with the amount per square meter increasing during the period of the lease. For 2007, the rent per square meter per month was ₱20.46, with the amount scheduled to increase every year up to ₱35.00 per square meter per month during the last year of the lease contract. Late payments by EAUC are subject to interest computed at the 90-day Government treasury bill rate plus 2.0% per annum until fully paid. Real Property taxes and fees on the leased property and on EAUC's machinery, equipment and other improvements installed or introduced in the leased property are for the account of EAUC.

Shareholders

EAUC is 50.0% owned by the Company and 50.0% owned by El Paso Philippines. A shareholders' agreement dated April 20, 2007 governs the relationship between the Company and El Paso Philippines. Among other matters, the agreement grants each of the Company and El Paso Philippines equal representation on the board of directors of EAUC, grants the Company the right to appoint the Chairman, Chief Financial Officer and Assistant Corporate Secretary of EAUC and grants El Paso Philippines the right to appoint EAUC's Vice-Chairman, Chief Executive Officer and Corporate Secretary. The agreement also grants each party a right of first offer over the other party's ownership interest in EAUC and sets out a mechanism for resolving shareholder disputes. The shareholders' agreement also authorizes the parties to establish a series of redeemable preferred shares to be issued by EAUC to each of the Company and El Paso Philippines in proportion to their respective common share ownership in EAUC.

Operations Review

The following table summarizes the EAUC's operating statistics for the 2006, 2007 and 2008.

	2008	**2007**	**2006**
Total Energy sold	202	264	259
Energy Generation (GWh)	215	277	249
Net Capacity Factor (%)	54%	70%	63%
Availability (%)	94%	89%	88%
Reliability (%)	97%	96%	94%

Power Offtaker

On June 7, 1993, EAUC (then known as Mactan Power Corporation) entered into a power supply and purchase agreement ("PSPA") with the Export Processing Zone Authority (now the PEZA) that requires EAUC to supply and deliver to the MEPZ I export processing zone, and for the MEPZ I export processing zone to purchase, all of such export processing zone's electricity power requirements from EAUC. The agreement is for a term of 15 years beginning December 31, 1997.

Under the terms of the PSPA, EAUC is paid in Philippine Pesos for the electricity actually delivered and received by the MEPZ 1 export processing zone at a rate of not more than 90.0% of NPC's utility rate for customers in the Cebu Grid with comparable electricity demands, based on an 8.0% return on rate base for NPC. In the event NPC's return on rate base is higher or lower than 8.0%, the PSPA provides for adjustments to the rate EAUC is allowed to charge ranging from 89.0% of NPC's utility rate for Cebu Grid customers (based on an NPC return on rate base of 8.5% or more) to 95.0% of NPC's utility rate for Cebu Grid customers (based on an NPC return on rate base of 5.5% or less). Because NPC's grid rates have been declining since May 2002, and particularly after the ERC approved unbundled NPC grid rates in September 2006, the rates that EAUC has been able to charge customers in MEPZ 1 has also been declining, while rising prices for crude oil has meant that EAUC's operating costs have increased.

On April 17, 2008, PEZA and EAUC signed an amendment to the PSPA. The salient provisions of said agreement are as follows:

(a) Amendment of the term of contract to end in April 2011 with the discretion to renew under mutually acceptable conditions.

(b) The discontinuance of the prompt payment discount on sales to PEZA.

(c) The amendment of the purchase price formula which provides for the following:

- Capacity Fee per kWh base of ₱1.1604 sensitized to the Philippine Consumer Price Index (base October 2007) multiplied by total kWh sold for the month. If PEZA purchases off-peak energy from NPC/Transco a blended formula provides that the Capacity Fee is multiplied against a minimum off take of 22,692,699 kWh. These capacity fees are meant to meet the EAUC's fixed and variable operating expenses.

- Energy Fee at 100% heavy fuel oil and lube with guaranteed consumption rates. If PEZA purchases off-peak energy from NPC/Transco, the Blended Energy Fee will be the same as the unblended but with the additional industrial diesel oil fee with guaranteed consumption rates. This enables EAUC to pass on its risks related to fuel prices.

- Other Costs - reimbursement of all government imposed expenses (Department of Energy, Transco Ancillary'Charges)

The delivery point or metering point of the electricity is at the high voltage side of the MEPZ I substation. Under the terms of the PSPA, EAUC is required to post a bond callable on demand in an amount equivalent to average monthly power sales under the PSPA and is meant to guarantee that EAUC will supply and deliver electricity in accordance with the terms of the PSPA. The bond will be effective throughout the term of the PSPA and the cost of premiums will be for the account of EAUC. EAUC is permitted "downtime" of 45 days per unit per year for the last eight years of the contract period that allows EAUC to undertake normal inspection, maintenance, repair and overhaul of its engines.

Fuel Supply

The fuel supply for the EAUC plant is currently provided by Petron pursuant to a FOSA. Petron agreed to provide fuel oil and diesel oil to EAUC for the period from November 1, 2007 to October 31, 2009.

Under the terms of the FOSA, Petron is currently required to supply 46,000,000 liters of industrial fuel oil and 20,000 liters of industrial diesel oil per month. The fuel oil and diesel oil delivered by Petron must meet the specification and quality standards specified by EAUC, with Petron assuming responsibility for any direct costs and expenses incurred by EAUC if the fuel oil and diesel oil delivered by it do not meet EAUC's stability and compatibility standards. Pricing for the fuel oil and diesel oil is based on formulae set out in the FOSA.

Petron is responsible for managing EAUC's inventory of fuel oil and diesel oil and guarantees that at any time that EAUC will have at least five days of inventory in EAUC's storage tanks. Petron also assumes responsibility for compliance with all applicable safety and environmental regulations and is required to undertake, at its own expense, any clean up activities resulting from any spills or discharges, unless these are caused by EAUC's fault or negligence.

Petron is subject to penalty provisions under the FOSA,in the event that it fails to comply with its fuel supply obligations under the FOSA and EAUC is unable to source fuel oil and diesel oil from alternative sources.

Cebu Private Power Corporation ("CPPC")

Incorporated on July 13, 1994, CPPC owns and operates a 70 MW Bunker C-fired power plant in Cebu City, one of the largest diesel power plants in the island of Cebu. Commissioned in 1998, the CPPC plant was constructed pursuant to a BOT contract to supply 62 MW of power to VECO. The CPPC plant will revert to VECO in November 2013.

Shareholders

On April 20, 2007, AP acquired from EAUC 60.0% of the outstanding common shares of CPPC. The remaining 40.0% of the outstanding common shares was acquired by Vivant Energy Corporation of the Garcia family of Cebu, who together with AP, are the major shareholders of VECO. VECO owns all of the outstanding preferred shares of CPPC, which comprises approximately 20.0% of the total outstanding capital stock of CPPC. The Company and Vivant Energy Corporation executed a shareholders' agreement that governs their relationship with regard to CPPC.

Among other matters, the agreement grants the Company the right to appoint the Chairman, President, Chief Financial Officer and Corporate Secretary of CPPC and grants Vivant Energy Corporation the right to appoint CPPC's Vice-Chairman, Vice President and Treasurer. The agreement also grants each party a right of first offer over the other party's ownership interest in CPPC and sets out a dividend policy that will allow CPPC's free cash flow to be distributed to shareholders on an annual basis.

Operations Review

The following table summarizes the CPPC's operating statistics for the years 2006, 2007 and 2008.

	2008	**2007**	**2006**
Total Energy sold	296	241	219
Energy Generation (GWh)	297	242	217
Net Capacity Factor (%)	49.73	40.60	36.46
Availability (%)	94.97	93.52	89.99
Reliability (%)	98.22	97.19	97.68

Power Offtaker

On February 7, 1997, CPPC signed a Power Purchase Agreement (PPA) with VECO. The PPA provides that CPPC shall at its cost, design, develop, finance, and construct power plant facilities; maintain and operate the same; and supply power to VECO who agrees to buy a pre-agreed minimum off-take from CPPC at a rate (called "Electricity Price") not to exceed 98.0% of the effective billing rate of NPC to VECO based on contracted demand and energy.

The term of the PPA is 15 years commencing from the date of commercial operations (November 25, 1998), unless terminated in accordance with the provisions of the PPA but in no event to extend beyond the term of the present franchise of VECO. The PPA may be renewed or extended subject to the mutual agreement of the parties to the terms and conditions applicable to any such renewal. Upon expiration of the 15-year cooperation period, CPPC shall transfer, convey, and assign the power plant to VECO without cost, except for applicable taxes thereon which shall be for the account of VECO.

In order for CPPC to fulfill the provision of the PPA, CPPC signed a deed of usufruct with VECO under which the latter, at no cost, shall assign to CPPC the full exclusive and uninterrupted use of certain real properties located at VECO's premises, where the power plant facility is located. This agreement is for a period of 15 years from the start of commercial operations, subject to pretermination by reason of the existence or occurrence of any of the events identified in the PPA and shareholders' agreement.

On September 1, 2006, a Supplement to the 1997 PPA was executed by CPPC and VECO. Some of the salient provisions of the Supplement include the continuing use of the prevailing electricity tariff rates, removal of the prompt payment discount, removal of the minimum off-take, and modified scheme based on a Demand-Energy Pricing Scheme. This in effect allows CPPC to bill capacity fees based on CPPC's guaranteed contractual capacity. This energy pricing allows CPPC to pass on the risks related to fuel prices. While waiting for the ERC approval on the Supplement to the 1997 PPA, VECO filed a motion to extend its cash cost arrangement with CPPC which was approved by the ERC in the latter's decision dated August 10, 2006.

On December 28, 2006, the ERC approved the Supplement to the 1997 PPA, which was implemented on the billing period ending January 26, 2007 which was the first billing cycle immediately after the approval of the ERC.

Fuel Supply

On November 14, 2007, CPPC entered into a FOSA with Petron. Under the terms and conditions of the FOSA, Petron shall supply/sell and deliver to CPPC, and CPPC shall buy from Petron its heavy fuel oil and light fuel oil requirements, for a period of 24 months, from November 1, 2007 to October 31, 2009.

The FOSA stipulates that the estimated monthly volume of heavy fuel oil to be delivered is 7.0 million liters (or 168.0 million liter for the 24-month period) and the estimated monthly volume of light fuel oil to be delivered is 60,000 liters (or 1.4 million liters for the 24-month period). The actual quantities may vary from month to month and are contingent of the actual electricity generation of CPPC's power plant. Further, fuel delivered is on consignment basis.

STEAG State Power Inc. ("STEAG Power")

AP closed the sale and purchase of the 34.0% equity ownership in STEAG Power from Evonik Steag (formerly known as STEAG GmbH) last November 15, 2007, following its successful bid to buy the 34.0% equity ownership in August 2007. The total purchase price for the 34.0% equity in STEAG Power was US$102 million, inclusive of interests.

Incorporated on December 19, 1995, STEAG Power is the owner and operator of a 232 MW (gross) coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The coal plant was built under a BOT arrangement and started commercial operations on November 15, 2006.

The coal plant is subject of a 25-year power purchase agreement with the NPC, which agreement is backed by a Performance Undertaking issued by the Republic of the Philippines. STEAG Power currently enjoys a 6-year income tax holiday from the BOI.

Shareholders

With its 34.0% stake in STEAG Power, AP is equity partner with majority stockholder Evonik Steag, Germany's fifth largest power generator, which currently holds 51.0% equity in STEAG Power. La Filipina Uy Gongco Corporation holds the remaining 15.0% equity in STEAG Power.

In 2007, Evonik Steag, State Investment Trust Inc. (the predecessor-in-interest of La Filipina Uy Gongco Corporation), AP, (the "Shareholders") and STEAG Power entered into a Shareholders' Agreement in order to establish the manner in which STEAG Power is to be run and to set out the terms governing their relationship as shareholders of STEAG Power. The Shareholders have agreed, through STEAG Power, to jointly operate and maintain the 232 MW (gross) Mindanao coal-fired power plant at the PHIVIDEC Industrial Estate in Misamis Oriental, Mindanao, Philippines together with related facilities, as more particularly described in the PPA (the "Project").

The Shareholders' Agreement set forth the parties' agreement with respect to funding, composition of the board of directors, reserved and majority matters and voting, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer of shares), pre-emptive rights, budget, dividend policy, default and confidentiality.

Operations Review

For 2007, STEAG Power had a total generation of 1,405 GWh. For 2008, STEAG Power was able to sell and generate to its offtaker a total of 1,330.1 GWh of electricity while its capacity factor on a year-to-date basis is 72.11%.

Fuel Supply

STEAG Power has an existing long-term coal supply agreement with PT Jorong Barutama Greston of Indonesia. The long-term supply contract with PT Jorong Barutama Greston is up to 2019. Base price is fixed with capped annual escalation.

Abovant Holdings, Inc. ("Abovant") and Cebu Energy Development Corporation ("CEDC")

Incorporated on November 28, 2007, Abovant is a joint venture company formed by TPI, a wholly owned subsidiary of AP, and Vivant Integrated Generation Corporation ("VIGC") of the Garcia Group of VECO to hold their investments in a new power plant being built in Sangi, Toledo City, Cebu.

Abovant, which is 60.0% owned by AP, through TPI, and 40.0% owned by VIGC, has formed CEDC, together with Global Formosa, a joint venture between Global Power and Formosa Heavy Industries. CEDC is in the process of constructing a new 3x82MW coal-fired power plant in the existing Toledo Power Station complex in Sangi, Toledo City, Cebu. With Abovant's 44.0% stake in the project (Global Formosa owns the remaining 56.0%), AP's effective interest in the new power plant, which broke ground in January 2008, is approximately 26.4%.

The power plant, which is expected to be completed by the second half of 2010, will cost approximately US$430 million. The power to be generated from the new power plant will provide much needed security to the power supply of the province of Cebu in the coming years. Additional power will be needed with the influx of business process outsourcing companies and new hotels in the province and the presence in the Toledo-Balamban area of large industries such as Atlas Mining Corporation, the shipbuilding facility of Tsuneishi Heavy Industries (Cebu) Inc. and the modular fabrication facility of Metaphil International Inc.

CEDC plans to establish Electric Power Purchase Agreements with possible offtakers, which will contain contracted Minimum Energy Offtake with fuel as pass through.

Southern Philippines Power Corporation ("SPPC")

SPPC is a joint venture among AP, Alsons Consolidated Resources, Inc., Toyota Tsusho, and Electricity Generating Public Company Limited. AP has a 20.0% equity interest in SPPC, which owns and operates a 55 MW Bunker C-fired power plant in Alabel, Sarangani in Southern Mindanao. The SPPC power plant was developed on a build-own-operate basis by SPPC under the terms of an Energy Conversion Agreement ("ECA"') with the NPC. Under the ECA, NPC is required to deliver and supply to SPPC the fuel necessary to operate the SPPC power plant during an 18-year cooperation period, which ends in 2016. NPC is also required to take all the electricity generated by the SPPC power plant during the cooperation period and pay SPPC on a monthly basis capital recovery, energy, fixed operations and maintenance (O&M) and infrastructure fees as specified in the ECA. During this cooperation period, SPPC is responsible, at its own cost, for the management, operation, maintenance and repair of the SPPC power plant.

Aside from providing much needed capacity to the Southwestern Mindanao Area, the SPPC power plant also performs the role of voltage regulator for General Santos City, ensuring the availability, reliability, and quality of power supply in the area.

Operations Review

The following table summarizes SPPC's operating statistics for 2006, 2007 and 2008.

	2008	**2007**	**2006**
Total Energy sold	164.43	174.93	192.08
Energy Generation (GWh)	168.37	179.46	196.18
Net Capacity Factor (%)	37.38	39.08	42.08
Availability (%)	92.43	94.42	92.29

Western Mindanao Power Corporation ("WMPC")

Like SPPC, WMPC is also a joint venture of AP, Alsons Consolidated Resources, Inc., Toyota Tsusho and Electricity Generating Public Company Limited. AP has a 20.0% equity interest in WMPC, which owns and operates a 100 MW bunker-C fired power station located in Zamboanga City, Zamboanga del Sur in Western Mindanao. The WMPC power plant was developed on a build-own-operate basis by WMPC under the terms of an ECA with NPC. Under the ECA, NPC is required to deliver and supply to WMPC the fuel necessary to operate the WMPC Plant during an 18-year cooperation period, which ends in 2015. NPC is also required to take all the electricity generated by the WMPC Plant during the cooperation period and pay WMPC on a monthly basis capital recovery, energy, fixed O&M and infrastructure fees as specified in the ECA. During this cooperation period, WMPC is responsible, at its own cost, for the management, operation, maintenance and repair of the WMPC Plant.

Aside from providing much needed capacity to the Zamboanga Peninsula, the WMPC power plant also performs the role of voltage regulator for Zamboanga City ensuring the availability, reliability, and quality of power supply in the area.

Operations Review

The following table summarizes WMPC's operating statistics for 2006, 2007 and 2008.

	2008	2007	2006
Total Energy sold	106.7	157.15	224.67
Energy Generation (GWh)	109.5	160.7	229.13
Net Capacity Factor (%)	13.08	19.17	26.95
Availability (%)	95.37	95.7	97.05

Redondo Peninsula Energy, Inc. ("RP Energy")

Incorporated on May 30, 2007, RP Energy is a joint venture company owned equally by AP and TCIC. It is the project company that will build and operate a 300 MW coal-fired power plant in Redondo Peninsula in the SBFZ.

In April 2008, RP Energy issued a letter of award to Formosa Heavy Industries for the supply of the boiler, steam turbine, generator, and related services that will be used for the construction of the power plant. The award serves to fix the price and delivery time of the equipment amidst an environment of rising prices and longer delivery period of raw materials. The project is estimated to cost approximately US$500 million. The construction of the coal plant is being deferred pending further review of the power supply and demand requirements in the Luzon Grid.

AP Renewables, Inc ("APRI")

On July 30, 2008, APRI submitted the winning bid of US$447 million to PSALM for the purchase of the Tiwi-MakBan Geothermal Complex consisting of the 289 MW Tiwi Geothermal Power Plant located at Tiwi, Albay and the 458 MW MakBan Geothermal Power Plant located at Laguna and Batangas Provinces. While the aggregate installed capacity of Tiwi-MakBan is 767 MW, it is expected that the dependable capacity will only be 462 MW, due to limitations in steam supply.

The Asset Purchase Agreement ("APA") entered into by APRI and PSALM became effective on August 26, 2008 ("Effective Date").

Under the APA, APRI is required to pay the purchase price in several tranches. At least 40.0% of the purchase price ("Up-Front Payment") shall be paid on or before the Closing Date, which may be anytime between the 60th and 270th day from Effective Date, while the remaining balance shall be payable in 14 semi-annual payments ("Deferred Payments"). The first of the Deferred Payments shall be paid six (6) months after the Closing Date.

Among the rights and obligations assigned to APRI, under the APA, are transition supply contracts with various expiring terms and covering an estimate of 480 MW capacity at combined peak. Included among the supply contracts assigned, while not a transition supply contract, is the obligation to supply 219 MW to the Manila Electric Company (Meralco). Rates for the transition supply contracts are pegged to Base NPC Time-of-Use Rates, which is currently at ₱3.8966/kWh. The Energy Regulatory Commission (ERC) on February 16, 2009 provisionally authorized the NPC to increase its basic rates by an average of ₱0.4682/kWh for Luzon. With the adjustment, NPC's new average basic rates are ₱4.3648/kWh for Luzon, effective NPC's February 26 to March 25, 2009 billing period.

The APA likewise requires APRI to rehabilitate Units 5 and 6 of the MakBan Geothermal Power Plant at its own cost and expense, which must be accomplished and completed within four (4) years from Closing

Date. APRI is currently in the process of developing a rehabilitation and refurbishment plan. Based on initial estimates, the rehabilitation and refurbishment costs could reach US$140-150 million over a period of four years. This rehabilitation and refurbishment plan is expected to improve the geothermal plants' operating capacities.

Control and management of Tiwi-MakBan shall be turned over by PSALM to APRI on Closing Date. The management and operation of the steam fields, which supply steam to Tiwi-MakBan, shall remain with Chevron. After turn-over of Tiwi-MakBan, but before the rehabilitation is completed, the steam supply arrangement between APRI and Chevron shall be governed by a transition agreement, which provides for the reimbursement of capital expenditures and operating expenses, as well as payment of service fees by APRI to Chevron. After the rehabilitation is completed, the steam supply arrangement shall be governed by the GRSC, wherein APRI will no longer pay service fees and reimburse Chevron for capital expenditures and operating expenses. Instead, under the GRSC, APRI shall pay Chevron for the price of steam, which shall be linked to Barlow Jonker and Japanese Public Utilities coal price indices. The GRSC shall be effective until 2021.

Other Generation Facilities

AP's distribution utilities, DLPC and CLPC, each have its own stand-by plant. DLPC currently maintains the 53 MW Bunker C-fired Bajada stand-by plant, which is capable of supplying 24.0% of DLPC's requirements. CLPC maintains a stand-by 7 MW Bunker C-fired plant capable of supplying approximately 37.0% of its requirements.

Future Projects

Before undertaking a new power generation project, the Company conducts an assessment of the proposed project. Factors taken into consideration by the Company include the proposed project's land use requirements, access to a power grid, fuel supply arrangements (if relevant), availability of water (for hydroelectric projects), local requirements for permits and licenses, the ability of the plant to generate electricity at a competitive cost and the presence of potential offtakers to purchase the electricity generated. For the development of a new power plant, the Company, its partners and suppliers are required to obtain the necessary permits required before commencement of commercial operations, including permits related to project site, construction, the environment and planning, operation licenses and similar approvals.

Notwithstanding the review and evaluation process that the Company's management conducts in relation to any proposed project, acquisition or business, there can be no assurance that the Company will eventually develop a particular project, acquire a particular generating facility or that projects will be implemented or acquisitions made or businesses conducted in the manner planned or at or below the cost estimated by the Company. In addition, there can be no assurance that a project, if implemented, or an acquisition, if undertaken, will be successful.

Acquisition of additional generation assets

AP, on its own and/or with strategic partners, plans to participate in the upcoming bids for the privatization of the government's power assets. NPC, through PSALM, intends to reach its privatization level of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas.

In particular, the Company is considering participating in the bidding for the 112.5 MW Tongonan geothermal plant in Leyte province in the Visayas and the 192 MW Palinpinon geothermal plant in Negros Oriental.

AP also intends to participate in PSALM's public auction for the IPP administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators. AP likewise submitted letters of interest to PSALM for the bidding of

the 100 MW Power Barge 117, 100 MW Power Barge 118 and 55 MW Naga Land Based Gas Turbine Power Plant.

DISTRIBUTION OF ELECTRICITY

The Aboitiz Group has a 70-year history in the Philippine power distribution sector and has been known for innovation and efficient operations. Through the years, AP has managed to build strong working relationship with the industry's regulatory agencies.

With ownership interests in seven distribution utilities, AP currently is one of the largest electricity distributors in the Philippines. AP's distribution utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities in Central Luzon, Visayas and Mindanao, with an aggregate land area of approximately 5,095 square kilometers. Collectively, AP's distribution utilities, which contributed approximately 34.0% of its net income for 2008. AP had a total customer base of 658,318 in 2008, 636,641 in 2007 and 617,184 in 2006.

The table below summarizes the key operating statistics of the Distribution Companies for 2008 and the previous two years.

Company	Electricity Sold (MWh)			Peak Demand (MWh)			No. of Customers		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
VECO	1,766,059	1,680,537	1,571,451	326	313	308	296,003	288,587	282,634
DLPC	1,370,951	1,331,437	1,268,742	248	245	238	257,101	247,341	238,612
SFELAPCO	406,022	391,999	365,639	75	74	75	73,600	70,071	66,477
CLPC	118,450	117,523	112,928	23	23	22	28,927	27,966	26,911
SEZ	298,050	199,082	179,006	64	44	36	2,585	2,576	2,472
MEZ[2]	141,225	137,233	126,913	23	22	21	74	75	66
BEZ[2]	63,329	56,798	49,685	15	14	12	28	25	12
Total	4,164,086	3,914,609	3,674,364	774	735	712	658,318	636,641	617,184

The Company currently has ownership interests in seven distribution utilities as follows:

Visayan Electric Company, Inc. ("VECO")

VECO is the second largest electric privately-owned distribution utility in the Philippines in terms of customers and annual MWh sales. VECO supplies electricity to a region covering 672 square kilometers in the island of Cebu with a population of approximately 1.5 million. Its franchise area includes the cities of Cebu, Mandaue, Talisay and Naga, and the municipalities of Minglanilla, San Fernando, Consolacion and Lilo-an. To date, VECO has twelve (12) substations located in different areas around in the cities of Cebu, Mandaue, Naga and the municipality of Consolacion.

VECO, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu Island since 1905. In the early 1900s, the predecessors-in-interest of the Aboitiz Group acquired a 20.0% interest in VECO's predecessor-in-interest, the Visayan Electric Company, S.A. Since that time, the Aboitiz Group's ownership interest in VECO has increased from 20.0% to the current beneficial ownership interest of 55.11% held by AP.

In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The term of this franchise was extended by Republic Act No. 6454 for an additional 25 years

[2] For MEZ and BEZ, full year 2006 and part of the 2007 figures (first five months) refer to key operating statistics of its predecessor-in-interest Aboitiz Land, Inc.

beginning in 1978 and was conditionally renewed for another 25 years from December 2003, subject to the resolution of an intra-corporate dispute at that time involving AEV, AP's parent company, and Vivant Corporation. In September 2005, the Philippine Congress passed Republic Act No. 9339, which extended VECO's franchise to September 2030. VECO's application on the extension of its Certificate of Public Convenience and Necessity ("CPCN") was approved by the ERC last January 26, 2009.

VECO entered its reset period in end 2008 under the PBR, and is expected to enter the 4-year regulatory period in July 1, 2010.

Shareholders

In April 2004, AEV and Vivant, which is the holding company of the Garcia family, entered into a Shareholders' Cooperation Agreement that sets out guidelines for VECO's day-to-day operations and the relationship among VECO's shareholders, including: restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), board composition and structure, proceedings of directors and shareholders, minority shareholder rights, dividend policy, termination, and non-compete obligations. Under the terms of the agreement, day-to-day operations and management of VECO were initially assumed by AEV and, after AP acquired AEV's ownership interest in VECO in January 2007, by AP. AP and Vivant Corporation are each required to place in escrow 5.0% of the shares in VECO registered in their respective names to guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement. The escrow shares will be forfeited in the event a shareholder group violates the terms of the Shareholders' Cooperation Agreement. The Shareholders' Cooperation Agreement was adopted as a result of a dispute between AEV and Vivant regarding the management of VECO. Relations between the shareholders of VECO are amicable.

Davao Light & Power Company, Inc. ("DLPC")

DLPC is the third largest privately-owned electric distribution utility in the country in terms of customers and annual GWh sales. DLPC supplies electricity to a region covering 3,354 square kilometers in and around Davao City in Southern Mindanao with a population of approximately 1,432,544. DLPC's franchise area includes Davao City, Panabo City and the municipalities of Carmen, Dujali and Santo Tomas in the province of Davao del Norte.

AP currently has an ownership interest of 99.9% in DLPC, which was organized on October 29, 1929. DLPC's original franchise, which covered Davao City, was granted in November 1930 by the Philippine Legislature and was for a period of 50 years. In 1976, the NEA extended DLPC's franchise for Davao City to November 2005 and granted DLPC franchises for the municipalities of Carmen, Panabo and Santo Tomas in Davao del Norte province. In September 2000, the Philippine Congress passed Republic Act No. 8960, which granted DLPC a franchise over its current franchise area for a period of 25 years, or until September 2025. The Aboitiz Group acquired its ownership interest in DLPC in 1946.

DLPC has a 150 MVA and a new 2 x 50 MVA substation drawing power at 138 kV. In 1998, it entered into a ten-year power purchase agreement with NPC, which had been extended to 2015 by a separate contract signed by the parties in 2005. DLPC's power purchase agreement with NPC allows the delivery of most of DLPC's power requirements through DLPC's 138 kV lines. As a result, in taking delivery of electricity from NPC, DLPC is able to bypass the Transco connection assets and avoid having to pay corresponding wheeling fees to Transco, thereby allowing DLPC to cut its operating costs.

DLPC also has a 53 MW Bunker C-fired standby plant (the Bajada Plant), which is capable of supplying 24.0% of DLPC's electricity requirement.

In February 2007, DLPC awarded to the Hedcor Consortium (composed of Hedcor, PHC, Hedcor Sibulan, and Hedcor Tamugan) a 12-year supply contract of 400,000,000 kWh per year of new capacity starting August 2009. The price differential between Hedcor Consortium's winning bid price of ₱4.0856 per kWh and the next lowest bid was approximately ₱1.0129 per kWh. Over the life of the supply

contract, the differential will amount to approximately ₱4.9 billion at current peso value, representing significant savings for DLPC customers.

DLPC decided to secure the new supply contract in anticipation of the full utilization within the next two years of the existing contracted energy supply under the 10-year contract with the NPC for 1,238,475 MWh and the 15-year contract with Hedcor.

On January 15, 2007, the ERC approved a memorandum of agreement between DLPC and Transco, pursuant to which DLPC's Bajada Plant will provide reactive power support on an as-needed basis to the Mindanao Grid, subject to the dispatch instructions of Transco's Mindanao systems operator. When DLPC provides reactive power under the terms of the agreement, Transco will pay DLPC a fee, which DLPC is required to flow back to its customers by way of reduced rates.

DLPC also operates a fully functional automated mapping and facilities management ("AM/FM") system for its entire franchise area, which was developed in-house by DLPC's programmers. Believed to be one of the first AM/FM system in the Philippines, the system allows DLPC to track field assets, determine a customer's electricity utilization and detect malfunctions or abnormal usage such as illegal tapping at all times. DLPC also uses the Supervisory Control and Data Acquisition ("SCADA") system, which allows DLPC's engineers to monitor and control DLPC's electric distribution assets remotely.

DLPC entered its reset period under the PBR in January 2009, and is expected to enter the 4-year regulatory period in July 1, 2010.

Cotabato Light & Power Company, Inc. ("CLPC")

CLPC supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao province in Mindanao. Its franchise area covers approximately 191 square kilometers and has a population of approximately 350,692. In 2008, it has a manpower complement of 62 full-time and a number of contractual employees serving a customer base of 28,927, composing of residential, commercial, industrial and flat rate customers.

CLPC was formally incorporated in April 1938. Its original 25 year franchise was granted in June 1939 by the Philippine Legislature. In 1961 the Philippine Congress passed Republic Act No. 3217 which was further amended by Republic Act No. 3341 extending CLPC's franchise until June 1989. In August 1989, the then National Electrification Commission (NEC), (now called National Electrification Administration (NEA) extended CLPC's franchise for another 25-years, which will expire in August 2014. AP owns 99.9% of CLPC.

CLPC has three substations of 10 MVA, 12 MVA and 15 MVA and is served by two 69 kV transmission lines, which provide redundancy in case one transmission line fails. CLPC's distribution voltage is 13.8 kV. It maintains a stand-by 7.35 MW Bunker C-fired plant capable of supplying approximately 37.0% of its franchise area requirements. The existence of a standby power plant which is capable of supplying electricity in cases of supply problems with NPC and for the stability of voltage whenever necessary is another benefit to CLPC's customers.

Although a relatively small utility, CLPC's corporate relationship with sister company DLPC allows the former to immediately implement benefits from the latter's system developments. CLPC also uses state of the art AM/FM and SCADA systems like DLPC.
The ERC recently issued its final determination on CLPC's application for approval of its annual revenue requirement and performance incentive scheme under the PBR scheme. This covers the second regulatory 4-year period, which commenced on April 1, 2009.

The ERC conducted public hearings on March 3 and 4, 2009 on CLPC's resulting distribution rate structure. The ERC decision is expected on or before the end of April 2009. CLPC expects to implement the new rate structure on May 1, 2009, which is one month later than the scheduled start of the second

regulatory period. Any resulting under- or over-recovery in revenue will be reflected in the correction factor at the next rate application to be implemented in April 2010.

San Fernando Electric Light and Power Co. Inc. ("SFELAPCO")

SFELAPCO supplies electricity to approximately 32 barangays in San Fernando City, 29 barangays in the municipality of Floridablanca, 5 barangays in the municipality of Bacolor and 2 barangays in the municipality of Guagua, a portion of Lubao and Santo Tomas, all located within Pampanga province in Central Luzon. Its franchise area covers 204 square kilometers and has a population of approximately 365,427.

SFELAPCO was incorporated on May 17, 1927. In 1961, the Philippine Congress passed Republic Act No. 3207, which granted SFELAPCO a franchise to distribute electricity for a period of 50 years within the franchise area described above. The franchise will expire in June 2011. AP has an effective interest of 43.8% in SFELAPCO.

SFELAPCO is part of the fourth batch of private utilities to enter PBR, and is expected to enter its 4-year regulatory period by April 1, 2011.

Subic Enerzone Corporation ("SEZ")

In May 2003, the consortium of AEV and DLPC won the competitive bid to provide distribution management services to the SBMA and to operate the SBFZ power distribution system for a period of 25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of DLPC, AEV, SFELAPCO, Team Philippines, Okeelanta and PASUDECO to undertake the management and operation of the SBFZ power distribution system. SEZ was formally awarded the contract to manage the SBFZ's power distribution system on October 25, 2003 and officially took over the operations of the power distribution system on the same day.

SEZ's authority to operate the SBFZ power distribution system was granted by the SBMA pursuant to the terms of Republic Act No. 7227 (The Bases Conversion and Development Act of 1992), as amended. As a company operating within the SBFZ, SEZ is not required to pay the regular corporate income tax of 35.0% and instead pays a preferential tax of 5.0% on its gross income in lieu of all national and local taxes.

Following the acquisition of AP in January 2007 of the 64.3% effective ownership interest of AEV in SEZ, AP entered into another agreement on June 8, 2007 to acquire the combined 25.0% equity stake in SEZ of AEV, SFELAPCO, Okeelanta, and PASUDECO.

Last December 17, 2007, AP bought the 20.0% equity of Team Philippines in SEZ for ₱92 million. Together with the 35.0% equity in SEZ of AP's subsidiary DLPC, this acquisition brings AP's total equity in SEZ to 100%.

In November 2008 SEZ implemented its rate increase as per approved unbundled rates.

SEZ is part of the fourth batch of private utilities to enter PBR, and is expected to enter its 4-year regulatory period by April 1, 2011.

Mactan Enerzone Corporation ("MEZ")

MEZ was incorporated in January 2007 when Aboitiz Land, Inc. ("Aboitizland") spun off the power distribution system of its MEPZ II project. The MEPZ II project, which was launched in 1995, is operated by Aboitizland under a BOT Agreement entered into with the Mactan-Cebu International Airport Authority ("MCIAA").

On June 8, 2007, AP entered into an agreement to acquire Aboitizland's 100% equity stake in MEZ represented by 8,754,443 common shares of MEZ. Pursuant to the agreement, AP acquired Aboitizland's ownership interest in MEZ valued at ₱609.5 million in exchange for AP's common shares issued at the initial public offering price of ₱5.80 per share. The SEC approved the shares swap agreement last January 10, 2008.

MEZ sources its power from NPC pursuant to a Contract to Supply Electric Energy. Under the supply contract, NPC is required to provide power to MEZ up to the amount of contracted load, which is based on the projections provided by companies operating in the MEPZ II pursuant to a Power Service Contract each company operating in MEPZ II enters into with MEZ.

Balamban Enerzone Corporation ("BEZ")

BEZ was incorporated in January 2007 when Cebu Industrial Park Developers, Inc. ("CIPDI"), a joint venture between Aboitizland and Tsuneishi Holdings (Cebu), Inc. ("Tsuneishi Holdings"), spun off the power distribution system of the WCIP. WCIP is a special economic zone for light and heavy industries located in Balamban in western Cebu, which is owned and operated by CIPDI. The park is home to shipbuilding and ship repair facilities of Tsuneishi Heavy Industries (Cebu), Inc. and FBMA Marine Inc. as well as the modular fabrication facility of Metaphil International, Inc.

On May 4, 2007, CIPDI declared a property dividend to its stockholders in the form of its equity in BEZ. On June 8, 2007, AP entered into an agreement to acquire Aboitizland's 60.0% equity stake in BEZ represented by 4,301,766 shares common shares of BEZ. Pursuant to the agreement, AP acquired Aboitizland's ownership interest in BEZ valued at ₱266.9 million in exchange for AP's common shares issued at the initial public offering price of ₱5.80 per share. The SEC approved the shares swap agreement last January 10, 2008. On March 7, 2008, AP purchased Tsuneishi Holdings' 40.0% equity in BEZ for approximately ₱178 million. The acquisition brought AP's total equity in BEZ to 100%.

Distribution Network

The Distribution Companies own distribution lines with voltage levels ranging from 4.16 kV to 23 kV. These lines distribute electricity to the Distribution Companies' customers in each of their respective franchise areas. All customers that connect to these distribution lines are required to pay a tariff for using the system. Each of the Distribution Companies has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified in different voltage levels based on their consumption of, and demand for, electricity. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV to 23 kV while smaller industrial, commercial and residential customers receive electricity at 240 V or 480 V.

- *VECO*. As of December 31, 2008, VECO had 208.90 kilometers of 69 kV transmission lines. As of the same date, VECO had 12 distribution substations for transforming high voltage into medium voltages for subsequent distribution, with total distribution transforming capacity of 410 MVA and 1 subtrans substation with sub-transmission capacity of 200 MVA. Of VECO's industrial and commercial customers, two had 69 kV connections. As of the same period, VECO's distribution network was comprised of urban and rural distribution networks that include 3,158.11 kilometers of 13.8 kV and 23 kV distribution lines and 17,752 distribution transformers.

- *DLPC*. As of December 31, 2008, DLPC had 179.48 kilometers of high voltage distribution lines between 69 kV and 138 kV subtransmission lines. As of the same period, DLPC had 22 substations for transforming high voltage into medium voltages for subsequent distribution and two substations for transforming high voltage for substranmission, with total transforming capacity of 731 MVA. DLPC's distribution network is comprised of urban and rural distribution networks that include 1,486.14 kilometers of 13.8 kV distribution lines and 15,387 distribution transformers.

- *Cotabato Light and Power Company*. As of the December 31, 2008, CLPC had 10.34 kilometers of 69 kV subtransmission lines and had three substations for transforming high voltage into medium

voltages for subsequent distribution, with total transforming capacity of 37 MVA. As of the same period, CLPC's distribution network consists of 221.39 kilometers of 13.8 kV distribution lines and 1,387 distribution transformers.

- *SEZ*. As of the December 31, 2008, the SBFZ power distribution system operated by SEZ had 14.04 kilometers of 69 kV subtransmission lines. As of the same period, the SBFZ distribution system had four substations for transforming high voltage into medium voltages for subsequent distribution, with total transforming capacity of 110 MVA. SBFZ's distribution network consists of 168.73 kilometers of 13.8 kV distribution lines and 2,084 distribution transformers.

- *SFELAPCO*. As of December 31, 2008, SFELAPCO had 30 kilometers of 69 kV subtransmission lines. As of the same period, SFELAPCO had four substations for transforming high voltage into medium voltages for subsequent distribution, with total transforming capacity of 121.2 MVA. SFELAPCO's distribution network consists of 396.52 kilometers of 13.8 kV distribution lines and 3,513 distribution transformers.

- *MEZ*. As of December 31, 2008, the MEPZ II power distribution system operated by MEZ had no subtransmission lines. As of the same period, the MEPZ II distribution system had two substations for transforming high voltage into medium voltages for subsequent distribution, with total transforming capacity of 58 MVA. As of the period, the MEPZ II distribution network consisted of 4 kilometers of 13.8 kV distribution lines and 59 distribution transformers banks.

- *BEZ*. As of December 31, 2008, the WCIP power distribution system operated by BEZ had no subtransmission lines. As of the same date, the WCIP distribution system had one substation for transforming high voltage into medium voltages for subsequent distribution, with total transforming capacity of 25 MVA. As of the same period, the WCIP distribution network consisted of 7 kilometers of 13.8 kV distribution lines and 9 distribution transformers.

Distribution Methods of Products and Services

Except for SNAP-Magat and SNAP-Benguet, which sell most of the electricity they generate through the WESM, the Generation Companies have long-term bilateral power supply agreements with the NPC, private distribution utilities or other large end-users. Some of the Generation Companies have transmission service agreements with Transco for the transmission of electricity to the designated delivery points of their customers, while others built their own transmission lines to directly connect to their customers. In some instances, where the offtaker is NPC, NPC takes delivery of the electricity from the generation facility itself.

On the other hand, the Distribution Companies have exclusive distribution franchises in the areas where they operate. These utilities own distribution lines with voltage levels ranging from 4.16 kV to 23 kV. These lines distribute electricity to the Distribution Companies' customers in each of their respective franchise areas. All customers that connect to these distribution lines are required to pay a tariff for using the system.

Each of the Distribution Company has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified in different voltage levels based on their consumption of, and demand for, electricity. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV to 23 kV while smaller industrial, commercial and residential customers receive electricity at 240 V or 480 V.

All of the Distribution Companies have entered into transmission service contracts with Transco for the use of Transco's transmission facilities in the distribution of electric power from the Grid to their respective customers.

NEW PRODUCTS AND SERVICES

Other than the ongoing Greenfield and/or rehabilitation projects undertaken by AP's Generation Companies, AP and its subsidiaries do not have any publicly announced new product or service to date.

For more information regarding the various Greenfield and rehabilitation projects, see discussions in "*Generation of Electricity*" on page 72.

SYSTEM PERFORMANCE

The following table sets forth certain information concerning the performance of the Distribution Companies for the years indicated:

	For the period ended December 31		
	2008	**2007**	**2006**
VECO			
Total Electricity Losses	9.53%	9.68%	9.95%
Outages			
Number of outages	3.57	4.23	3.96
In hours	2.36	1.93	3.98
DLPC			
Total Electricity Losses	7.90%	8.58%	9.35%
Outages			
Number of outages	8.79	6.93	6.49
In hours	9.69	6.48	4.87
SFELAPCO			
Total Electricity Losses (kwhrs)	6.13%	6.03%	6.44%
Outages			
Number of outages	242	495.00	551.00
In hours	230	694.85	845.13
CLPC			
Total Electricity Losses	10.85%	10.31%	10.93%
Outages			
Number of outages	7.79	8.04	4.05
In hours	8.37	5.73	2.80
SEZ			
Total Electricity Losses	2.15%	3.75%	4.11%
Outages		16	14
Number of outages	12.00	16	14

	For the period ended December 31		
	2008	**2007**	**2006**
In hours	2.50	10.28	6.27
MEZ			
Total Electricity Losses	1.27%	3.00%	N/A
Outages			
Number of outages	7	12	
In hours			
BEZ			
Total Electricity Losses	1.48%	2%	N/A
Outages			
Number of outages	6	7	
In hours			

Electricity Losses

The Distribution Companies experience two types of electricity losses: technical losses and non-technical losses. Technical losses are those that occur in the ordinary course of distribution of electricity, such as losses that occur when electricity is converted from high voltage to medium voltage. Non-technical losses are those that result from illegal connections, fraud or billing errors.

Total electricity losses in 2007 were 9.68% for VECO, 8.58% for DLPC, 10.31% for CLPC, 3.75% for SEZ, 3.0% for MEZ, 2.0% for BEZ and 6.03% for SFELAPCO. Total electricity losses for 2008 were 9.64% for VECO, 8.17% for DLPC, 10.85% for CLPC, 3.19% for SEZ, 1.27% for MEZ, 1.48% for BEZ and 6.13% for SFELAPCO. These electricity loss rates compare favorably to the 9.5% government-mandated cap for private electric utilities. Recently however, the ERC issued regulations allowing private utilities, such as the Distribution Companies, to collect from customers a systems loss charge for total electricity losses up to 8.5%.

Since the Company assumed control of day-to-day operations and management at VECO in 2004, VECO's electricity losses have declined from 10.22% during 2004, to 9.95% during 2006, 9.68% during 2007 and 9.64% for the year 2008.

Since taking over the operation of the SBFZ distribution system, SEZ has been able to reduce electricity losses for the SBFZ system from 9.50% in 2004, 4.11% during 2006, 3.75% during 2007 and 3.19% for the full year 2008. This is due to the greater operating and technical efficiencies brought to bear by the Company in these two companies.

CLPC has the highest electricity loss: 10.93% in 2006, 10.31% in 2007 and 10.85% in 2008.

The Distribution Companies are also actively engaged in efforts to reduce electricity losses, particularly non-technical losses. To achieve this, the Distribution Companies, particularly VECO and DLPC, have deployed teams to conduct inspections, enhanced monitoring for irregular consumption, increased replacements for obsolete measuring equipment and developed a computer program to discover and analyze irregular invoicing.

The Distribution Companies continue to find ways to reduce systems losses in any economically viable manner.

Power Outages

The Distribution Companies seek to improve the quality and reliability of their power supply, as measured by the frequency and duration of power outages. The frequency of interruptions per year in 2008 averaged 3.57 interruptions per customer at VECO, 8.79 interruptions per customer at DLPC, 7.79 interruptions per customer at CLPC, 12.00 interruptions per customer at SEZ, 7.00 interruptions per customer at MEZ, 6.00 interruptions per customer at BEZ and 242 interruptions per customer at SFELAPCO. For 2008, the average duration of interruptions was 2.36 hours per customer at VECO, 9.69 hours per customer at DLPC, 8.37 hours per customer at CLPC, 2.5 hours per customer at SEZ, and 20.08 hours per customer at SFELAPCO.

The Distribution Companies each have "hotline" equipment that allows construction, maintenance and repairs to be conducted with only minimal interruption in electricity service. This reduces the number of service interruptions that the Distribution Companies have to schedule. Unscheduled interruptions due to accidents or natural causes, including typhoons, heavy rains and floods, represented the remainder of the Distribution Companies' total interruptions.

PURCHASE OF RAW MATERIALS AND SUPPLIES

Generation Business

AP's hydroelectric facilities utilize water from rivers located near the facilities to generate electricity. The hydroelectric companies, on their own or through NPC in the case of LHC, possess water permits issued by the NWRB, which allow them to use a certain volume of water from the applicable source of the water flow.

AP's oil-fired plants uses Bunker C fuel to generate electricity. EAUC and CPPC each have a fuel supply agreement with Petron, while SPPC and WMPC get fuel supplies from NPC pursuant to their respective ECAs with NPC.

STEAG Power has an existing long-term coal supply agreement with PT. Jorong Barutama Greston of Indonesia.

Distribution Business

The bulk of volume of electricity the Distribution Companies sell is purchased from NPC, rather than from the Generation Companies. The following Distribution Companies purchase electricity from the Generation Companies: DLPC and SFELAPCO from Hedcor and VECO from CPPC. Each of the Distribution Companies has bilateral agreements in place with NPC for the purchase of electricity, which set the rates for the purchase of NPC's electricity. The following table sets out material terms of each Distribution Company's bilateral agreements with NPC:

Distribution Company	Term of Agreement with NPC	Contract Energy (MWh per year)	Take or Pay	Pricing Formula
VECO	5 years and 3 months; expiring in December 2010	1,310,766	Yes	ERC approved NPC rate + ERC approved adjustments
DLPC	10 years; expiring in December 2015	1,238,475	Yes	ERC approved NPC rate + ERC approved adjustments
SFELAPCO	5 years; expiring in December 2010	237,800	Yes	ERC approved NPC rate + ERC approved adjustments
CLPC	10 years; expiring in December 2015	116,906	Yes	ERC approved NPC rate + ERC approved adjustments

Distribution Company	Term of Agreement with NPC	Contract Energy (MWh per year)	Take or Pay	Pricing Formula
SEZ	3 years; expiring in March 2011	90,000	Yes	Average generation rate P3.4742 per kWh and Franchise and Benefit tax ₱0.0245
BEZ	N/A	N/A	N/A	N/A
MEZ	10 years; expiring on September 2015	114,680	Yes	ERC approved NPC rate + ERC approved adjustments

SFELAPCO and DLPC get electricity supply from Hedcor's Irisan plant in Benguet and Talomo plants in Davao, respectively. The rates at which DLPC and SFELAPCO purchase electricity from the Generation Companies are established pursuant to the bilateral agreements that are executed after the relevant Generation Company has successfully bid for the right to enter into a PPA with either DLPC or SFELAPCO. These agreements are entered into on an arm's-length basis and on commercially reasonable terms and must be reviewed and approved by the ERC. In addition, ERC regulations currently restrict the Distribution Companies from purchasing more than 50.0% of their electricity requirements from affiliated companies, such as the Generation Companies. Pursuant to the Hedcor Consortium's 12-year power supply agreement to supply 400,000,000 kWh per annum of new capacity to DLPC, Hedcor Sibulan is expected to start supplying DLPC with the electricity generated from its Sibulan plant in 2009. Hedcor Tamugan, on the other hand, is expected to start supplying DLPC with electricity from its Tamugan and Panigan plants in August 2010.

VECO has entered into PPAs pursuant to which it purchases a minimum of 18,000,000 kWh per month on a take-or-pay basis from TPC, and approximately 61.72 MW of dispatchable capacity from CPPC (with no minimum energy off-take requirement).

The provisions of the Distribution Companies' PPAs are governed by ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors such as inflation indexes, and the duration of the contract. Under current ERC regulations, the Distribution Companies can purchase up to 90.0% of their electricity requirements using bilateral contracts.

Meanwhile, DLPC and CLPC each have their own stand-by plant. DLPC currently maintains the 54.7 MW Bunker C-fired Bajada stand-by plant which is capable of supplying 24.0% of DLPC's requirements. CLPC maintains a stand-by 7 MW Bunker C-fired power plant capable of supplying approximately 37.0% of its requirements.

Transmission Charges

Each of the Distribution Companies have entered into transmission service contracts with Transco for the use of Transco's transmission facilities in the distribution of electric power from the Grid to their respective customers. The Distribution Companies have negotiated a Memorandum of Agreement with Transco in connection with the amount and form of security deposit to be provided by the Distribution Companies to Transco to secure their obligations under their transmission services contracts.

CUSTOMERS, ANALYSIS OF DEMAND AND RATES

Customers

About 40.0% of the total electricity generated by the Generation Companies is delivered to the NPC pursuant to long-term bilateral power supply agreements with the NPC. These bilateral agreements are supported by NPC's credit, which in turn is backed by the Philippine government. Approximately one-third of the total electricity generated is sold through the WESM, while the rest, comprising of about one-fourth

of the total electricity generated, is sold to private distribution utilities pursuant to long-term bilateral agreements.

Most of AP's distribution companies, on the other hand, have wide and diverse customer bases. As such, the loss of any one customer will have no material adverse impact on AP. The Distribution Companies' customers are categorized into four principal categories:

(a) *Industrial customers.* Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls.
(b) *Residential customers.* Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes.
(c) *Commercial customers.* Commercial customers include service-oriented businesses, universities and hospitals.
(d) *Other customers.* Other customers include public and municipal services such as street lighting.

Analysis of Demand

The following table sets forth certain information regarding total customers, electricity sales and gross revenues for the periods indicated.

DISTRIBUTION DEMAND						
COMPANY	For the year ending December 31, 2008			For the year ending December 31, 2007		
	Customers	Sales Volume (GWh)	Revenue (₱ Mns)	Customers	Sales Volume (GWh)	Revenue (₱ Mns)
VECO						
Industrial	1,176	845	4,205	1,101	784	3,964
Residential	256,502	551	3,470	251,476	542	3,305
Commercial	38,189	349	2,110	35,875	333	2,005
Others	136	21	114	135	21	115.2
Total	296,003	1,766	9,899.1	288,587	1,680	9,389
DLPC						
Industrial	3,033	706	3,130	2,923	688	3,315
Residential	223,299	455	2,336	214,616	442	2,291
Commercial	30,683	182	914	29,720	174	909.1
Others	86	28	132	82	27	134
Total	257,101	1,371	6512	247,341	1,331	6,649
SFELAPCO						
Industrial	202	189	1,020	202	181	1,257
Residential	65,560	126	769	62,395	122	908
Commercial	7,678	88	522	7,326	85	643
Others	160	3	16.2	148	4	22
Total	73,600	406	2,327	70,071	392	2,830
CLPC						
Industrial	352	54	242	350	52	242
Residential	26,214	49	262	25,272	50	258
Commercial	2,334	14	75	2,315	13	72
Others	27	2	10	29	2	8
Total	28,927	119	589	27,966	117	580

DISTRIBUTION DEMAND						
COMPANY	For the year ending December 31, 2008			For the year ending December 31, 2007		
	Customers	Sales Volume (GWh)	Revenue (₱ Mns)	Customers	Sales Volume (GWh)	Revenue (₱ Mns)
SEZ						
Industrial	95	231	929	83	136	723.2
Residential	1,547	14	59.4	1,540	13	75
Commercial	827	51	224	855	48	268
Others (Streetlights)	116	2	9	98	2	10
Total	2,585	298	1,221	2,576	199	1,076
MEZ						
Industrial	55	140	599	55	82	347
Residential	-	-	-	-	-	-
Commercial	19	1	5	20	0	3
Others	-	-	-	-	-	-
Total	74	141	604	75	82	350
BEZ						
Industrial	19	63	288	15	34	131
Residential	-	-	-	-	-	-
Commercial	9	0	2	10	0	1
Others	-	-	-	-	-	-
Total	28	63	290	25	34	132

Rates

Rates charged for sales of electricity to final customers are determined pursuant to regulations established by ERC. These ERC regulations establish a cap on rates that provide for annual, periodic and extraordinary adjustments. Under the EPIRA, the utilities such as the Distribution Companies have been required to "unbundle" the electricity rates charged to customers in order to provide transparency in disclosing to customers components of their monthly bills and to segregate (consistent with the mandate of the EPIRA) the components of the distribution business which will become competitive once the EPIRA is fully implemented (such as supply and metering services) and those which will remain monopolized (such as transmission and wheeling). As a result, the Distribution Companies are required to identify and separately disclose to customers each individual charge that forms part of the cost of providing electricity, including generation, transmission, systems loss, distribution, metering and supply charges.

Each of the Distribution Companies classifies customers based on factors such as voltage level and demand level at which the electricity is supplied to such customers. Each customer is placed in a certain tariff level determined by the Distribution Companies within the guidelines provided by the ERC and is charged for electricity based on customer classification. Typically, industrial customers pay lower rates relative to the cost of providing services to them, while residential customers pay higher rates relative to the cost of providing services to them.

The following sets forth the material components of each Distribution Companies' monthly charges to customers.

1) *Distribution charges.* Currently, the distribution charges that the Distribution Companies collect from customers are computed with reference to the RORB rate-setting system. Under this system, distribution charges are determined based on the appraised value of a distribution utility's

historical costs, with the maximum rate of return set at 12.0%. Rate-setting under this system has historically resulted in prolonged review periods by regulators before a final rate was approved, and often resulted in interested parties, such as consumer advocacy groups, contesting rates approved by Government regulators in court. In addition, the determination of the components of a utility's cost base was subject to revision by regulators, with certain material expenses, such as those for income tax, being excluded from the base.

To address the inefficiencies and legal controversies caused by the RORB rate-setting system, the ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) in 2006, which sets out the manner in which PBR is to be implemented. Under PBR, the distribution-related charges that a distribution utility collects from customers will be fixed by reference to the utility's projected revenues over a four-year regulatory period, which are reviewed and approved by the ERC and thereafter used to determine the utility's efficiency factor. For each year during the regulatory period, the distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor set and changes in overall consumer prices in the Philippines. As part of the implementation of PBR, the ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being penalized for failing to meet these performance targets. During the 18 months prior to the PBR start date for each Distibution Company, each of them will undergo a regulatory reset process through which the PBR rate control arrangement are established based on documents submitted by each Distribution Company with the ERC, ERC resolutions, and consultations with the Distribution Company and the general public.

In January 2009, CLPC was able to obtain the final determination on its PBR application, and as of the date of this Prospectus, is in the process of applying tariff that is consistent with the revenue requirements in the final determination.

DLPC and VECO are currently in the reset process for their entry into the PBR. Submissions and examinations with the ERC will be made starting the first half of 2009.

SFELAPCO and SEZ are expected to begin the reset process on October 1, 2009.

2) *Transmission charges.* These charges are the amounts paid by the Distribution Companies to Transco for the use of Transco's facilities to transmit electricity from each Distribution Companies' electricity suppliers to the Distribution Companies' own transmission lines. Current ERC regulations allow the Distribution Companies to pass on to and recover from their customers the transmission charges paid by the Distribution Companies.

Under applicable laws and regulations, the Distribution Companies are required to allow use of their high-voltage distribution lines by others, including consumers within their franchise areas that are supplied by third parties. All users of the Distribution Companies' respective distribution lines must pay a wheeling fee for such use.

In anticipation of the full implementation of the Open Access System mandated by the EPIRA, which will allow large customers to connect directly with electricity suppliers, each of the Distribution Companies has entered into agreements with Transco to acquire all of Transco's subtransmission assets within each Distribution Company's franchise area. This will allow each Distribution Company to charge a distribution wheeling fee to consumers within its franchise area that elect to purchase electricity from third parties but need to wheel electricity using these subtransmission assets. These agreements to acquire Transco's subtransmission assets have been submitted to the ERC for approval. The ERC has approved the purchase by SFELAPCO of Transco's subtransmission assets within SFELAPCO's franchise area.

3) *Generation charges.* ERC regulations allow distribution utilities to pass through to their customers the full cost of electricity purchased from power generators, such as NPC and IPPs (including the Generation Companies).

4) *Supply and metering charges.* The Distribution Companies are currently allowed to charge their customers a fixed monthly amount that is meant to cover customer service-related costs, such as customer billing and collection services, and metering-related costs, such as meter installation, monitoring and reading. Customers are also required to provide deposits on meters that are installed to monitor their electric consumption. The ERC is currently contemplating opening supply and metering services to competition.

5) *Line loss charges.* These charges relate to the electricity losses that each Distribution Company is allowed to recover from customers. Currently, ERC regulations allow distribution companies to charge customers for electricity losses so long as electricity losses do not exceed 9.50% of the total electricity distributed by these companies. If a distribution company's electricity losses exceed 9.50%, the distribution company will be unable to pass on to its customers the loss charges relating to losses in excess of the 9.50% ceiling.

In response to the directives of President Gloria M. Arroyo to lower the costs of electricity, the ERC proposed new regulations for the maximum recoverable systems loss caps for all distribution utilities ánd electric cooperatives. Under the recently adopted ERC Resolution No. 17, Series of 2008, which amends the systems loss caps adopted by Republic Act No. 7832 (Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994), the actual recoverable system losses of distribution utilities will be reduced from 9.50 % to 8.50% while that of the electric cooperatives will be reduced from 14.0% to 11.0%. The new system loss caps will be implemented by January 2010.

Under ERC Resolution No. 17, Series of 2008, actual company use of electricity shall be treated as an expense of the distribution utilities in accordance with the following rules: for distribution utilities that are yet to enter PBR, the actual use shall be treated as Operation and Maintenance ("O&M") in their PBR applications; for distribution utilities that are already under PBR, the actual use shall be treated as O&M in their respective subsequent reset; and for electric cooperatives, actual company use shall be treated as O&M in the benchmarking methodology.

6) *Others.* Other charges collected from customers include: the universal charge, which is meant to cover Stranded Debt and Stranded Costs in accordance with the requirements of the EPIRA; a foreign currency adjustment rate, which is designed to address fluctuations in the foreign currency component of charges to customers, principally generation charges; and the lifeline subsidy rate, which is an amount collected from end-users to cover subsidies granted to low-consumption, low-income customers.

Customer Deposits

Each customer is required to deposit and maintain the equivalent of one month's consumption to guarantee any uncollected bills upon termination of a Distribution Company's service contract with the customer. Under current ERC regulations, bill deposits for service contracts from and after July 2004 earn interest equivalent to the prevailing interest rate for savings deposit as approved by the Bangko Sentral ng Pilipinas and such interest shall be credited yearly to the bills of the customer. For deposits relating to service contracts in effect prior to 1996 and until 1996 these deposits earned interest at the rate of 6.0% per annum, which was increased to 10.0% per annum from 1996 to July 2004. Under current ERC regulations, these deposits now earn interest at 2.0% per annum. ERC regulations also require that customer deposits, together with accrued interest, be refunded within one month from the termination of the relevant service contract if all of the customer's bills have been paid. In addition, a customer that has paid electric bills on or before their respective due dates for three consecutive years may demand a full refund of its deposit even prior to the termination of its service contract.

The Distribution Companies also obtain transformer, line and pole deposits from certain non-residential customers, which deposits are used as cash bonds to secure the proper maintenance and care of any transformer, line or pole that is exclusively used by the customer providing the deposit. These deposits do not earn interest and are refundable only after the customer's service contract is terminated.

Customer deposits are typically deposited by the Distribution Companies in interest-bearing accounts and refunds to customers are financed using interest earned from these accounts. From time to time, the Distribution Companies use customer deposits to finance their working capital requirements.

Billing Procedures

The procedures used for billing and payment for electricity supplied to customers is determined by customer category. The length of the collection process varies slightly among the Distribution Companies. Meter readings and invoicing take place on a monthly basis for low voltage consumers. Bills are prepared from meter readings or on the basis of estimated usage. Low voltage customers are billed within one to ten days after the meter reading, with payment required within 10 to 30 days after the invoice date. In case of non-payment, a notification of non-payment accompanied by the next month's invoice, is sent to the customer and a period of three to ten days is provided to pay the amount owed to the relevant Distribution Company. If payment is not received within one to five days after the grace period, the customers' electricity supply is suspended.

High voltage customers are billed on a monthly basis with payment required within ten (10) to thirty (30) days after the invoice date. In the event of non-payment, a notice is sent to the customer one to three days after the due date, giving a deadline of two to three days to make payment. If payment is not made within one to five days after the notice, the customer is subject to discontinuation of service.

Each of VECO, DLPC and CLPC has policies in place that require a visit to a customer that has failed to make any required payments to try to collect any unpaid amounts before service to such customer is discontinued. Third-party contractors are retained by VECO, DLPC and CLPC to conduct such customer visits. Service to a defaulting customer cannot be discontinued in the absence of such a customer visit. In order to reduce operating costs, both VECO and DLPC have outsourced to independent contractors several billing-related functions, including meter reading, bill printing, bill delivery and disconnections.

COMPETITION

The means by how AP can effectively compete with its competitors are set forth in the section entitled "*Competitive Strengths and Business Strategy*" on page 64.

AP addresses its competition using a holistic approach and does not address it on a per company basis.

Generation Business

With the ongoing privatization of NPC-owned power generation facilities and the establishment of WESM, AP's generation facilities located in Luzon, the Visayas and Mindanao will face competition from other power generation plants that supply electricity to the Luzon, Visayas and Mindanao grids. In particular, the SNAP-Magat and SNAP-Benguet, which operate merchant hydroelectric plants, are expected to face competition from leading multinationals such as Marubeni Corporation and Korea Electric Power Corporation, as well as Filipino-owned IPPs such as First Gen Corporation.

AP will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. Factors such as the performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects in the Philippines. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth of the Philippines.

Distribution Business

Each of the Distribution Companies currently has an exclusive franchise to distribute electricity in the areas covered by each franchise. Currently, each Distribution Company only has to contend with consumers within their franchise areas that self-generate or that can directly connect to NPC. Due to the relatively high cost of fuel in the Philippines, the Company does not believe that self-generation is a viable alternative for many consumers. With regard to consumers who directly connect with NPC, the Distribution Companies attempt to mitigate the impact of such direct connections by contesting their validity with the ERC. Each Distribution Company has also entered into an agreement to acquire all of Transco's subtransmission assets within such Distribution Company's respective franchise area. Once these subtransmission assets are transferred to the Distribution Companies, each of them can require direct connectors to pay a wheeling fee for transmitting electricity using such subtransmission assets.

Once Open Access and Retail Competition are fully implemented, AP expects that its distribution companies will face competition from generation companies who will be allowed to sell directly to contestable markets and from retail electricity suppliers. However, AP expects to be able to collect distribution wheeling fees from end-users within its distribution companies' respective franchise areas who choose to purchase electricity from these outside sources. AP's distribution companies have entered into agreements to acquire all of Transco's subtransmission assets within their respective franchise area. Once these subtransmission assets are transferred to the distribution companies, each of them can require direct connectors to pay a wheeling fee for transmitting electricity using such subtransmission assets.

Under Philippine law, the franchises of the Distribution Companies may be renewed by the Congress of the Philippines, provided that certain requirements related to the rendering of public services are met. The Company intends to apply for the extension of each franchise upon its expiration. The Company may face competition or opposition from third parties in connection with the renewal of these franchises. It should be noted that under Philippine law, a party wishing to secure a franchise to distribute electricity must first obtain a CPCN from the ERC, which requires that such party prove that it has the technical and financial competence to operate a distribution franchise, as well as the need for such franchise. Ultimately, the Philippine Congress has absolute discretion over whether to issue new franchises or to renew existing

franchises, and the acquisition by competitors of any of the Distribution Companies' franchises could adversely affect the Company's results of operations.

ELECTRICITY-RELATED SERVICES

Aboitiz Energy Solutions, Inc. ("AESI")

AP offers a range of retail electricity, sales and electricity-related services through its wholly owned subsidiary AESI. These services are designed to help AESI's customers improve the efficiency, cost and reliability of their electric equipment and optimize their electricity consumption.

AESI's main electricity-related services include:

Retail Electricity Supplier/Wholesale Aggregator. The objective of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. In particular, when Open Access and Retail Competition as mandated by the EPIRA Implementing Rules and Regulations are fully implemented throughout the Philippines, large-scale customers will be allowed to source electricity from various sources, including directly from generation facilities or from retail electricity suppliers licensed by the ERC. AESI holds a license to act as a retail electricity supplier (issued on December 6, 2006) and a license to act as a wholesale aggregator (issued on January 26, 2007). AESI intends to take advantage of its affiliation with the Aboitiz Group by consolidating electric power demand from the members of the Aboitiz Group and, potentially, customers and partners of the Aboitiz Group and leverage this aggregated demand in order to obtain electric power at lower prices from the WESM and from targeted power generators with excess generating capacity.

Power Factor Improvement. "Power factor" is the ratio of "real power" to "apparent power," and is a number between 0 to 1 inclusive. "Real power" is the capacity of a circuit to perform work in a particular time. "Apparent power" is the product of the current and voltage of a circuit and is either equal to or greater than the real power. Low power factor loads increase losses in a power distribution system and results in increased cost for electrical energy use. Under current Transco guidelines, a customer using Transco facilities is granted a discount on transmission charges if its power factor is greater than 90.0% and is penalized if its power factor is less than 85.0%. AESI helps customers improve their power factors by installing capacitor banks as part of the customers' electrical system in order to increase the customers' power factors. Customer contracts with AESI are for periods of at least two years and AESI is paid a percentage of the cost savings it is able to obtain for its customers resulting from power factor improvements.

AP intends to increase the customer base of AESI's power factor improvement services to include electric cooperatives that would be potential customers of the AP's generation companies. Improving the power factors of these cooperatives and reducing the costs should also improve their creditworthiness, allowing them to purchase electricity from the AP's generation facilities.

AESI recently partnered with Davies Energy Systems, Inc., a US energy efficiency company, to bring comprehensive energy efficiency technologies and financial solutions to private firms and local governments throughout the Philippines. AESI and Davies Energy Systems will apply their combined expertise and technologies to reduce energy costs for office buildings, shopping malls, commercial centers, manufacturing plants, industrial facilities, and government entities. The agreement between AESI and Davies Energy Systems also provides for project financing that will allow customers to secure the benefits of energy savings technologies with little or no up-front cost.

Power Distribution Management. AESI is also in the business of managing the operation and maintenance services of the power distribution facilities of privately developed special economic zones.

OPERATIONAL AND MANAGEMENT SUPPORT

The Company provides operational support to all the Generation Companies and the Distribution Companies. The support provided includes information technology, controllership, operations and human resource services, as well as legal support services. Each of the Generation Companies and the Distribution Companies pays the Company a management fee for the provision of these services.

TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES

AP and its Subsidiaries (the AP Group) enter into transactions with its parent, Affiliates and other related parties, principally consisting of:

(a) Management and other service contracts of certain Subsidiaries and Affiliates with ACO at fees based on agreed rates. Management and other service fees paid by the AP Group to ACO amounted to ₱40.73 million, ₱ 27.15 million, ₱15.54 million for the year ending December 31, 2008, 2007 and 2006, respectively.

(b) Management agreement with AEV in 2006. AEV was the sole and general manager of DLPC, CLPC and Hedcor pursuant to a management agreement with AEV in 2006, for which the former was entitled to management fees based on agreed rates. In 2007 AEV transferred the management contract to the Company upon assignment of AEV of all its rights, title and interests in the shares of stock of DLPC, CLPC and Hedcor to the Company. Management fees charged by AEV in 2006 amounted to ₱391.25 million.

(c) Service contracts of certain Subsidiaries and Affiliates with AEV at fees based on agreed rates. Professional, legal and other service fees paid by the Group to AEV amounted to ₱362.61 million, ₱366.57 million and ₱131.36 million for the year ending December 31, 2008, 2007 and 2006, respectively.

(d) Management service agreement with AP and Vivant Energy Corporation ("Vivant"). The Company and Vivant are the general managers of CPPC for which they are entitled to a management fee based on agreed rates. Management fees charged to operations amounted to ₱12.00 million in 2008 and 2007.

(e) The Company serves as a guarantor on a loan obtained by Hedcor from a local bank. The Company also obtained standby letters of credit to guarantee debts of certain subsidiaries and associates.

(f) Energy fees billed by Hedcor to SFELAPCO amounted to ₱17.34 million in 2008 and ₱17.77 million in 2007.

(g) Energy fees billed by CPPC to VECO, which amounted to ₱2.35 billion in 2008 and ₱1.65 billion in 2007.

(h) Aviation services rendered by AEV Aviation to the AP Group. Total expenses amounted to ₱19.86 million in 2008, ₱12.66 million in 2007 and ₱10.69 million in 2006.

(i) Lease of commercial office units by the AP Group from Cebu Praedia Development Corporation (CPDC) for a period of three years. Rental expense amounted to ₱32.24 million in 2008, ₱28.19 million in 2007 and ₱25.26 million in 2006. CPDC is a subsidiary of AEV.

(j) Advances to/from related parties, both interest and non interest-bearing, payable on demand. Interest-bearing advances are based on annual interest rates ranging from 3.0% to 10.4% in 2008, 5.13% to 8.25% in 2007 and 5.17% to 17.0% in 2006. Net interest income/(expense) incurred on these advances amounted to ₱142.7 million in 2008, ₱(29.9) million in 2007 and ₱(47.8) million in 2006.

GOVERNMENT APPROVALS, PATENTS, COPYRIGHTS, FRANCHISES

Government Approvals

Generation Business

Power generation is not considered a public utility operation under the EPIRA. Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate the generation facilities. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the Grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC issued the "Guidelines for the Financial Standards of Generation Companies," which set the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

AP's generation companies, as well as DLPC and CLPC which own generation facilities, are required under the EPIRA to obtain a COC from the ERC for its generation facilities. They are also required to comply with technical, financial and environmental standards provided in existing laws and regulations in their operations.

The Generation Companies, DLPC and CLPC possess COCs for their generation businesses, as follows:

<table>
<tr><th>Title of Document:</th><th>Issued under the name of:</th><th>Power Plant</th><th>Date of Issuance</th></tr>
<tr><td>Certificate of Compliance No. 03-11-GXT33-0033</td><td>HEDCOR</td><td>
<table>
<tr><th>Type</th><th>Location</th><th>Capacity (in MW)</th><th>Fuel</th><th>Years Of Service</th></tr>
<tr><td>Hydro</td><td>Tadlangan, Tuba, Benguet</td><td>2.56</td><td>Hydro</td><td>13</td></tr>
<tr><td>Hydro</td><td>Nangalisan, Tuba, Benguet</td><td>2.50</td><td>Hydro</td><td>13</td></tr>
<tr><td>Hydro</td><td>Ampucao, Itogon, Benguet</td><td>2.40</td><td>Hydro</td><td>15</td></tr>
<tr><td>Hydro</td><td>Bito, La Trinidad, Benguet</td><td>10.75</td><td>Hydro</td><td>15</td></tr>
<tr><td>Hydro</td><td>Banengbeng, Sablan, Benguet</td><td>8.00</td><td>Hydro</td><td>15</td></tr>
<tr><td>Hydro</td><td>Calinan, Davao City</td><td>1.00</td><td>Hydro</td><td>16</td></tr>
</table>
</td><td>December 7, 2006</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
</table>

Title of Document:	Issued under the name of:	Power Plant					Date of Issuance
Certificate of Compliance No. 05-02-GXT 286b - 0331	HEDCOR	Type	Location	Capacity (in MW)	Fuel	Years Of Service	February 26, 2007
		Hydro Electric Turbine	Brgy. Mintal, Talomo, Davao City	3.47 MW	Hydro	15	
Certificate of Compliance No. 03-11-GXT32-0032	HEDCOR	Type	Location	Capacity (in MW)	Fuel	Years Of Service	December 7, 2006
		Hydro	Bakun Central, Bakun, Benguet	10	Hydro	15	
		Hydro	Amusongan, Bakun, Benguet	2.6	Hydro	15	
Certificate of Compliance No. 03-08-GXT17-0017	LHC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	July 29, 2008
		Hydro	Amilongan Alilem, Ilocos Sur	70 MW	Hydro	23	
Certificate of Compliance No. 05-12-GXT13701-13728	DLPC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	December 7, 2005
		Diesel Engine	J.P. Laurel Ave., Bajada, Davao City	54.27 MW	Diesel	15	
		Diesel Engine	Panabo Office	41.6 kW	Diesel	15	
		Diesel Engine	Ponciano Reyes Substation	105 kW	Diesel	15	
Notice of Approval of Certificate of Compliance dated Jan. 15, 2007	CLPC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	
		Diesel	Sinsuat Ave., Cotabato City	9.9 MW	Diesel	-	
Certificate of Compliance No. 08-06-GXT2-0002	EAUC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	June 10, 2008
		Land-Based Diesel HFO Fired Engine	Mactan Export Processing Zone, Lapulapu City	46 MW	Heavy Fuel Oil	20	
Certificate of Compliance No. 08-06-GXT1-0001	CPPC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	June 3, 2008
		Land-Based Diesel HFO Fired Engine	Old VECO Compound, Brgy. Ermita, Cebu City	70 MW	Heavy Fuel Oil	20	

Title of Document:	Issued under the name of:	Power Plant					Date of Issuance
Certificate of Compliance No. 08-08-GXT20-0020	WMPC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	August 7, 2008
		Diesel	Sitio Malasugat, Sangali, Zamboanga City	100 MW	Bunker-C/Diesel	30	
Certificate of Compliance No. 08-08-GXT21-0021	SPPC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	August 7, 2008
		Diesel	Baluntay, Alabel, Sarangani Province	50 MW	Bunker-C/Diesel	30	
Certificate of Compliance No. 05-11-GXT-2860-13433	SNAP-Magat (Magat Plant)	Type	Location	Capacity (in MW)	Fuel	Years Of Service	November 29, 2005 (Change of ownership issued on January 28, 2008)
		Hydro electric turbine	Gen. Aguinaldo, Ramon, Isabela	360 MW	Hydro	-	
		Stand-by Diesel Genset	Gen. Aguinaldo, Ramon, Isabela	350 kW	Diesel	-	
Certificate of Compliance No. 05-11-GXT286m-13429	NPC (Binga Plant)	Type	Location	Capacity (in MW)	Fuel	Years Of Service	November 23, 2005
		Hydro Electric Turbine	Sitio Binga, TInongdan, Itogon, Benguet	100	Hydro	-	
Certificate of Compliance No. 06-08-GN-16	STEAG Power	Type	Location	Capacity (in MW)	Fuel	Years Of Service	August 30, 2006
		Coal fired	Park V, Phividec Industrial Estate, Balacanas, Villanueva, Misamis Oriental	232MW	Coal	25	
		Stand-by Genset		1.25MW	Diesel	25	

AP's Generation Companies, which operate hydroelectric facilities, are also required to obtain water permits from the NWRB for the water flow used to run their respective hydroelectric facilities. These permits specify the source of the water flow that the generation companies can use for their hydroelectric generation facility, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and generally are not terminated by the Government as long as the holder of the permit complies with the terms of the permit regarding the use of the water flow and the allowable volume.

Distribution Business

Under the EPIRA, the business of electricity distribution is a regulated public utility business that requires a national franchise that can be granted only by the Congress of the Philippines. Except for Distribution Companies operating within ecozones, all of AP's Distribution Companies possess franchises granted by the Philippine Congress. Distribution utilities are also required to obtain a CPCN from the ERC to operate as a public utility in addition to their legislative franchises.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules ("DSOAR") and the performance standards set out in the implementing rules and regulations of the EPIRA, which took effect on March 22, 2002.

Shown below are the respective expiration periods of the Distribution Companies' legislative franchises:

	Expiration Date
VECO	2030
DLPC	2025
CLPC	2014
SFELAPCO	2011
SEZ[3]	2028

MEZ and BEZ, which operate the power distribution utilities in MEPZ II and the WCIP, are duly registered with PEZA as Ecozone Utilities Enterprises.

Supply Business

The business of supplying electricity is currently being undertaken solely by franchised distribution utilities. However, once Retail Competition and Open Access starts, the supply function will become competitive. Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA. However, it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the Contestable Market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. In preparation for the implementation of Retail Competition and Open Access, AP's wholly owned subsidiary AESI obtained a license to act as a Retail Electricity Supplier (issued on December 6, 2006) and a license to act as a Wholesale Aggregator (issued on January 26, 2007).

Effect of Existing or Probable Governmental Regulations

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. Among the provisions of the EPIRA which have or will have considerable impact on AP's businesses are the following:

Wholesale Electricity Spot Market

The WESM, a spot market for the buying and selling of electricity, is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to: (a) provide incentives for the cost-efficient dispatch of power plants through an economic merit order; (b) create reliable price signals to assist participants in weighing investment options; and (c) provide a fair and level playing field for suppliers and buyers of electricity, wherein prices are driven by market forces.

[3] Distribution Service Management Agreement with the Subic Bay Metropolitan Authority

The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Although generators are allowed under the WESM to transact through bilateral contracts, these contracts will have to be "offered" to the market for the purpose of determining the appropriate merit order of generators. Settlement for bilateral contracts will, however, occur outside the market between the contracting parties. Traded electricity, not covered by bilateral contracts, will be settled through the market on the basis of the market clearing prices for each of the trading periods.

To encourage the establishment of the WESM, the EPIRA prohibits distribution utilities from sourcing more than 90.0% of their total demand from bilateral power supply contracts. Any distribution utility that violates the 90.0% cap shall not be allowed to recover from its customers the costs pertaining to the volume in excess of the cap.

Open Access and Retail Competition

The EPIRA likewise provides for a system of Open Access to transmission and distribution wires, whereby Transco and distribution utilities may not refuse use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the Open Access system are as follows:

(a) Establishment of the WESM;
(b) Approval of unbundled transmission and distribution wheeling charges;
(c) Initial implementation of the cross subsidy removal scheme;
(d) Privatization of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
(e) Transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPP administrators.

The Government expects Retail Competition and Open Access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and Retail Competition has already been introduced with end-users who comprise the Contestable Market for this purpose already identified. The WESM for the Visayas began trial operations sometime in 2007. Open Access in Luzon and the Visayas will commence once preconditions thereto as provided under the EPIRA have been complied with. For Mindanao, a truly competitive environment required by Retail Competition is not expected to exist prior to at least 2011 because the largest generating asset owned by NPC in Mindanao cannot by law be privatized for at least 10 years from passage of EPIRA.

Upon implementation of Open Access, the various contracts entered into by utilities or suppliers may potentially be "stranded." Stranded Costs refer to the excess of the contracted costs of electricity over the actual selling price of the contracted energy output of such contracts in the market. However, Stranded Costs arising from contracts approved by the ERB before December 1, 2000 will be allowed recovery through the Universal Charge.

Interim Open Access

Power industry players, including MERALCO and VECO filed a petition with the ERC docketed as ERC Case No. 2008-026 RC entitled "In the Matter of the Petition for Approval of Interim Open Access (IOA) in the Luzon and Visayas Grid to implement an open access prior to satisfaction of conditions laid down under the EPIRA." The ERC approved this application with modifications emphasizing the voluntary nature of the proposed IOA where the choice of whether or not to participate in the IOA is left to the distribution utliity and its eligible customers. The ERC ruled that considering the primary and ultimate goal of the IOA is to provide large end users additional options for power supply, it would instead consider the proposal as the "Power Supply Option Program" (PSOP). The PSOP is purely contractual between the petitioners and their end-users with the affected distribution utility's consent. However, the ERC approved the PSOP only for the Luzon Grid. It will automatically terminate once actual Open Access and

Retails Competition provided under the EPIRA is operational. The Visayas Grid has been excluded due to tight power supply and lack of an operational WESM in the Visayas.

Under the PSOP basic framework, PSOP customers will consist of end–users with a monthly average peak demand of at least one (1) MW for the past 12 months prior to the implementation of the PSOP with a requirement for the threshold level of one (1) MW being retained throughout the duration of the PSOP. No aggregation of end-users will be allowed. Eligible suppliers ("ES") will consist of companies with existing ERC licenses as Retail Electricity Suppliers ("RES") and generating companies, including those that acquired the privatized NPC generating assets that are within the mandated cap. IPP Administrators with respect to uncontracted energy output of the NPC-IPP contracts and the NPC, once it complies with the market share limitation, will also be allowed as Eligible Suppliers. All existing TSCs will remain valid. NPC will be allowed to continue selling its capacity on wholesale level at the WESM or through its TSCs. The ERC is currently drafting the rules and guidelines for the PSOP.

The PSOP will not affect the rates imposed on captive and non-PSOP customers of distribution utilities. The implementation of the PSOP will commence after the transfer of the operations of the Calaca privatized NPC generating asset. A single billing policy will be used. Eligible distribution utilities will act as Default Suppliers and be accountable for the Accounting and Settlement of Imbalances. Eligible distribution utilities will also act as the sole /default metering service provider and the meter data provider throughout the program. Furthermore, they will be allowed to recover pass-through costs incurred while still providing retail electricity to all end-users in their respective franchise areas. Lifeline subsidies will still be borne by PSOP customers. Eligible suppliers will manage the total energy requirement of the PSOP customer and spot an imbalance energy sourced from the WESM. All other details of the PSOP, not inconsistent the ERC decision, will be governed by the Terms of Reference submitted by the petitioners in the case.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandates the unbundling of distribution and wheeling charges from retail rates with such unbundled rates reflecting the respective costs of providing each service. The EPIRA also states that cross subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a Universal Charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines there will be material adverse effect upon the public interest or an immediate, irreparable, and adverse financial effect on a distribution utility.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users will be exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of the Performance-based Rate-setting Regulation ("PBR")

On December 13, 2006, the ERC issued the RDWR for privately-owned distribution utilities entering PBR for the second and later entry points that sets out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the RORB that has historically determined the distribution charges paid by the Distribution Companies' customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charge is adjusted upwards or downwards taking into consideration the utility's efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to

customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

In January 2009, CLPC was able to obtain its final determination on its PBR application and as of the date of this Prospectus, is in the process of applying for a tariff that is consistent with the revenue requirements in the final determination. In January 2009 DLPC and VECO formally entered the reset process for its entry into the new performance-based ratemaking methodology. Submissions and examinations with the ERC will be done in the first half of 2009.

SFELAPCO and SEZ will begin the reset process beginning October 1, 2009. During the 18 months prior to the PBR start date for each Distribution Company, each of these companies will undergo a regulatory reset process through which the PBR rate control arrangements are established based on documents submitted by each Distribution Company with the ERC, ERC resolutions, and consultations with each Distribution Company and the general public.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation.

Proposed Amendments to the EPIRA

Since the enactment of the EPIRA, members of the Philippine Senate and House of Representatives have proposed amendments to the EPIRA. Some of the proposed amendments are discussed below.

(a) Disallow recovery of Stranded Contract costs;
(b) Require transmission charges, wheeling charges, connection fees, and retail rates to be approved by the ERC only after due notice and public hearing participated in by all interested parties;
(c) Exclude from the rate base the following items that Transco and the distribution utilities charge the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;
(d) Prohibit cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials, or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials, or directors within the fourth civil degree of consanguinity;
(e) Prohibit distribution utilities under a bilateral electric power supply contract from sourcing more than 33% of its total electric power supply requirements from a single generation company or from a group of generating companies wholly owned or controlled by the same interests. On the effectiveness of the proposed law, any distribution utility that has contracts which exceed the allowable 33% limit will be directed to desist from further awarding additional electric power supply contracts with any generation company or group of generating companies wholly owned or controlled by the same interests, until its present electric power supply requirements, when added to the proposed additional electric power supply contract or contracts with any generation company or group of generating companies wholly owned or controlled by the same interests shall comply with the 33% limit.

THE RENEWABLE ENERGY ACT OF 2008

Republic Act No. 9513, the Renewable Energy Act of 2008 ("RE Law"), is a landmark legislation and is said to be the most comprehensive renewable energy law in Southeast Asia. The RE Law was signed into law by President Gloria M. Arroyo in December 16, 2008 but took effect on January 31, 2009.

The RE Law's declared policy is to encourage and develop the use of renewable energy resources of the country to reduce the country's dependence on fossil fuels and reduce overall costs of energy, and reduce, if not prevent harmful emissions into the environment to promote health and sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of one percent (1.0%) of gross income from sale of renewable energy and other incidental income from generation, transmission and sale of electric power and a rate of one and a half percent (1.5%) of gross income for indigenous geothermal energy. Micro-scale projects for communal purposes and non-commercial operations with capacity not exceeding 100 kW kilowatts will not be subject to the government share.

More importantly, the RE Law offers fiscal and non-fiscal incentives to RE developers of RE facilities, including hybrid systems, subject to a certification from DOE, in consultation with the BOI. These incentives include income tax holiday for the first seven (7) years of operation; duty-free importations of RE machinery, equipment and materials effective within ten (10) years upon issuance of certification, provided, said machinery, equipment and materials are directly, exclusively and actually used in RE facilities; special realty tax rates on equipment and machinery not exceeding one and a half percent (1.5%) of the net book value; net operating loss carry-over (nolco); corporate tax rate of ten percent (10.0%) after the 7^{th} year; accelerated depreciation; zero-percent value-added tax on sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of RE facilities; cash incentives for RE developers for missionary electrification; tax exemption on carbon emission credits; tax credit on domestic capital equipment and services. All fiscal incentives apply to all RE capacities upon effectivity of the RE Law. RE producers are also given the option to pay Transco transmission and wheeling charges on a per kilowatt-hour basis and are given priority dispatch. RE producers are likewise exempted from universal charge imposed under the EPIRA. In addition, the RE Law provides a financial assistance program from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

NEW ERC REGULATION ON SYSTEMS LOSS CAP REDUCTION

Under the recently adopted ERC Resolution No. 17, Series of 2008, which amends the systems loss caps adopted by Republic Act No. 7832 (Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994), the actual recoverable system losses of distribution utilities will be reduced from 9.50 % to 8.50% while that of the electric cooperatives will be reduced from 14.0% to 11.0%. The new system loss caps will be implemented by January 2010.

Under ERC Resolution No. 17, Series of 2008, actual company use of electricity shall be treated as an expense of the distribution utilities in accordance with the following rules: for distribution utilities that are yet to enter PBR, the actual use shall be treated as O&M in their PBR applications; for distribution utilities that are already under PBR, the actual use shall be treated as O&M in their respective subsequent reset; and for electric cooperatives, actual company use shall be treated as O&M in the benchmarking methodology.

Trademarks

AP and its subsidiaries have applications pending for the registration of intellectual property rights for various trademarks associated with their corporate names and logos. The following table sets out information regarding the trademark applications the Company and its subsidiaries have filed with the Philippine Intellectual Property Office.

Trademarks	Applicant	Date Filed	Certificate of Registration No./Date Issued	Description	Status
ABOITIZ ENERGY SOLUTIONS, INC.	AESI	January 25, 2007	4-2007-000784 September 03, 2007.	Application for trademark ABOITIZ ENERGY SOLUTIONS and Device	Original Certificate of Registration for the ABOITIZ ENERGY SOLUTIONS & DEVICE was issued on September 03, 2007
CLEANERGY	AP	October 19, 2001	4-2001-07900. January 13, 2006	Application for trademark "Cleanergy"	Original Certificate of Registration for the mark CLEANERGY was issued on January 13, 2006
CLEANERGY & DEVICE	AP	July 30, 2002	4-2002-6293 July 16, 2007	Application for trademark Cleanergy and Device with the representation of a lightbulb with three leaves attached to it, with the words "CLEANERGY" and a small "ABOITIZ" diamond logo below it	Original Certificate of Registration no. 4-2002-006293 was issued on July 16, 2007
POWER ONE (wordmark)	AESI	July 29, 2002	4-2002-6232 February 19, 2007	This is an application for trademark "Power One"	Original Certificate of Registration was issued on February 19, 2007.

Trademarks	Applicant	Date Filed	Certificate of Registration No./Date Issued	Description	Status
POWER ONE & DEVICE	AESI	February 17, 1999	4-1999-001121 September 18,2006	Application for trademark " Power One and Device "	Original Certificate of Registration no. 4-1999-001121 was issued on September 18, 2006.
SUBIC ENERZONE CORP. & LOGO (color claim)	SEZC	July 6, 2006	4-2006-07306 August 20,2007	Trademark Application for Subic Enerzone Corporation and Logo (blue & yellow). The mark consists of the words "Subic Enerzone" in fujiyama extra bold font with the word "Corporation" below it, also in fujiyama font, rendered in cobalt medium blue color, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color, in a yellow background	Original Certificate of Registration No. 4-2006-007306 was issued on August 20, 2007.
SUBIC ENERZONE CORP. & LOGO (gray)	SEZC	July 6, 2006	4-2006-07305 August 20,2007	Trademark Application for Subic Enerzone Corp. wordmark and logo (gray). The mark consists of the words "SUBIC ENERZONE" in Fujiyama extra bold font with the word "Corporation" below it, also in Fujiyama font, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words.	Original Certificate of Registration No. 4-2006-007306 was issued on August 20, 2007.
SUBIC ENERZONE CORPORATION (wordmark)	SEZC	July 6, 2006	4-2006-007304 June 4, 2007	Trademark Application for Subic Enerzone Corporation (wordmark)	Original Certificate of Registration was issued on June 4, 2007.
RP Energy and Device	RP Energy	August 12, 2008		Trademark application for energy generation under class 39. A representation of 2 mountains, colored blue and red, with the representation of the sun over them, and the words "RP Energy" and "Redondo Peninsula Energy Incorporated" below it.	Pending

RESEARCH AND DEVELOPMENT ACTIVITIES

AP and its Subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by AP's Subsidiaries and Affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

COMPLIANCE WITH ENVIRONMENTAL LAWS

AP's power generation and distribution operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations, such as the Clean Air Act (Republic Act No. 8749), address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. Each of AP generation and distribution companies has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, each of AP's generation and distribution companies has made and expects to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations. AP's hydropower companies allocate a budget for watershed management system in the respective watersheds where their projects are located.

For more information regarding the Company's compliance with health and environmental regulations, see "*Safety, Health and Environmental Regulation and Initiatives*" on page 132.

INSURANCE

It is the Company's policy to obtain insurance coverage for its operating assets and employees that is in line with industry standards and good business practices.

Generation Companies

LHC

LHC currently maintains with PNB General Insurers Co., Inc. and Philippine Charter Insurance Corporation, as co-insurers, (a) coverage for all risks of property damage including machinery breakdown in the amount of US$105.9155.6 million and (b) coverage for business interruption resulting from (a) above in the amount of US$25.432.3 million. The policy is valid until September 14, 2009.

LHC also insures infrastructures in the locality of their plant. They insure the Amburayan Bridge that is the vital link into the plant for ₱75 million. The policy period is from May 14, 2008 to May 14, 2009. They likewise insure their staffhouse for ₱12.9 million from October 15, 2008 to October 15, 2009.

Hedcor

Hedcor currently maintains an industrial all risk insurance policy with cover extensions for machinery breakdown, boiler explosion, and comprehensive general liability with PNB General Insurers Co., Inc. in the amount of ₱3,3042,515.40 million over all real and personal property of Hedcor. The policy period is from September 30, 2008 to September 30, 2009.

Hedcor also currently maintains insurance with Philamlife Insurance covering accidental death/disablement, unprovoked murder/assault, accident medical expense, and accident burial expense of covered employees/members of Hedcor. The policy period is from September 1, 2008 to September 1, 2009. Hedcor also currently maintains an electronic equipment insurance policy with Paramount Insurance Companies in the amount of ₱7.473.7 million over Hedcor's premises in Becket La Trinidad, Benguet and various plant/locations where Hedcor has operations in Benguet province. The policy period is from September 30, 2008 to September 30, 2009.

SNAP-Magat

SNAP-Magat currently maintains an Industrial All Risk insurance policy that covers its Magat Plant in the amount of US$380 million at Philam as its lead insurer and with several local and foreign sub-insurers. The policy also covers material damage for US$240 million and business interruption for US$230 million. Total aggregate premium paid was US$1.35 million and has an effective date of March 1, 2009 to March 1, 2010.

The Magat plant is also covered by a separate comprehensive general liability policy issued in favor of NPC with a limit of US$10.0 million for any one occurrence and in aggregate at Philam insurance. The deductible under this policy is US$100,000 for each and every loss for third-party property damage and US$5,000 for each and every loss in respect of personal injury. In order to have a lower deductible, SNAP-Magat expects to procure a separate policy (as primary cover) with limit of US$100,000 per occurrence and US$200,000 in aggregate with a deductible of US$10,000 for one occurrence for third-party property damage. Premium paid was US$18.5 thousand covering the period October 22, 2008 to October 22, 2009.

Magat plant is also protected with Sabotage and Terrorism policy in the amount of US$100 million. Premium paid was US$152 thousand. Magat is insured with Ascot Undewriting Asia (Private) Ltd, a foreign principal, as lead insurer and sub-insured with several foreign insurance companies.

SNAP-Benguet

SNAP-Benguet maintains an Industrial All Risk insurance policy that covers its Ambuklao plant for US$100 million and Binga Plant for US$150 million. Philam insurance is its lead insurer and with several local and foreign sub-insurers. Total aggregate premium paid was US$619.68 thousand and has an effective date of March 1, 2009 to March 1, 2010.

Both Ambuklao and Binga plants are covered by a separate comprehensive general liability policy issued in favor of NPC with a limit of US$10.0 million for any one occurrence and in aggregate at Philam insurance. The deductible under this policy is US$100,000 for each and every loss for third-party property damage and US$5,000 for each and every loss in respect of personal injury. In order to have a lower deductible, SNAP-Benguet expects to procure a separate policy (as primary cover) with limit of US$100,000 per occurrence and US$200,000 in aggregate with a deductible of US$10,000 for one occurrence for third-party property damage. Premium paid was US$22 thousand covering the period July 10, 2008 to July 10, 2009.

Also, both plants are protected with Sabotage and Terrorism policy in the amount of US$100 million. Premium paid was US$372 thousand. Insured with Ascot Undewriting Asia (Private) Ltd, a foreign principal, as lead insurer and sub-insured with several foreign insurance companies.

EAUC

EAUC currently maintains an insurance policy with PNB General Insurers Co., Inc. (40.0%), Standard Insurance Co., Inc. (35.0%), Phil. Charter Insurance (15.0%) and UCPB Gen. Insurance (10.0%) that covers all real and personal property, including machinery breakdown, with a total coverage amount of US$59.8 million. The policy is valid from December 28, 2008 until May 28, 2009.

The policy includes a deductible of US$0.5 million for each and every loss with respect to machinery breakdown, and a deductible of 2.0% of the value of exposed locations for each and every loss with respect to natural perils subject to a minimum of US$0.25 million for each and every loss. With respect to all other perils, there is a deductible of US$0.25 million for each and every loss. The total premium on this policy is US$41,877.33.

CPPC

CPPC currently maintains an insurance policy with PNB General Insurers Co., Inc. (41.0%), Standard Insurance Co., Inc. (34.0%), Philippines Charter Insurance Corp. (15.0%) and UCPB Gen. Insurance (10.0%). The policy covers the full value of all real and personal property, including machinery breakdown, with a total coverage of US$70 million. The policy is valid from May 28, 2008 until May 28, 2009. The policy includes a deductible of 2% of the actual value of affected item, with a minimum of US$0.25 million for each and every loss with respect to natural perils, and a deductible of US$0.5 million for each and every loss with respect to machinery breakdown claims. For all other perils, there is a deductible of US$0.15 million for each and every loss. The total premium on this policy is US$126,688.30.

WMPC

WMPC currently maintains an Industrial All Risk insurance policy with Malayan Insurance as its lead insurer. The policy covers the full value of all real and personal property, including machinery breakdown, with a total coverage of US$111.60 million. The policy is valid from December 18, 2008 until December 18, 2009. Total premium paid on this policy is US$0.445 million. The company also keeps aComprehensive General Liability Insurance for US$5 million cover with QBE Insurance. The policy is valid from February 19, 2009 up to February 19, 2010. Total premium paid for this policy is US$17,667. Lastly, the company also maintains the Sabotage and Terrorism cover with MAA General Insurance. This is shared with sister company SPPC. The insurance cover is US$ 2 million. The policy is effective from October 18, 2008 up to October 18, 2009. Total premium paid is US$96,696.00 equally shared with SPPC.

SPPC

SPPC currently maintains an Industrial All Risk insurance policy with Malayan Insurance as its lead insurer. The policy covers the full value of all real and personal property, including machinery breakdown, with a total coverage of US$62.20 million. The policy is valid from April 28, 2008 until April 28, 2009. Total premium paid on this policy is US$0.209 million. The company also keeps a Comprehensive General Liability Insurance for US$5 million cover with QBE Insurance. The policy is valid from April 21, 2008 up to April 21, 2009. Total premium paid for this policy is US$10,599.50. Lastly, the company also maintains the Sabotage and Terrorism cover with MAA General Insurance. This is shared with sister company WMPC. The insurance cover is US$2 million and is effective from October 18, 2008 up to October 18, 2009. Total premium paid is US$96,696.00 equally shared with WMPC.

STEAG

STEAG currently maintains an Industrial All Risk insurance policy with Federal Phoenix. The policy covers operational material damage for US$245 million and business interruption for US$111.20 million. It has the deductible of US$0.25 million for all property damage and US$1 million in case of earthquake. The policy is valid from November 15, 2008 until November 15, 2010. Total premium paid on this policy is US$1.104 million. The company also keeps a Comprehensive General Liability Insurance for US$25 million cover with Federal Phoenix. The policy is valid until December 31, 2008. Total premium paid for this policy is US$50,126.00. Lastly, the company also maintains the Sabotage and Terrorism cover with Malayan Insurance. The insurance cover is US$170 million. The policy is effective until May 15, 2009. Total premium paid is US$0.597 million.

Hedcor Sibulan

Hedcor Sibulan has insured its ongoing construction against possible risks that may not be fully borne by other parties. The contemplated risks fall within two broad categories:

a. Project risks that Hedcor Sibulan has insured:

1. Marine and inland transportation insurance on all equipment and materials from the place of manufacture to the project site. For machinery and equipment, US$25 million and for other shipment, US$2.5 million. Amounts include coverage for delay in start-up on loss of revenue or increase on cost of working following delay in achieving the scheduled commercial operation date.
2. Construction all risk coverage against loss or damage during construction, installation, testing and delivery to the project site. The coverage amounts to US$22.8 million for electrical and mechanical contracts and an aggregate of ₱3.35 billion for other insurance coverages.
3. Sabotage and terrorism cover for US$25 million.

All insurance policies discussed above include a delay in start-up to cover loss of revenue and increase cost of working.

b. Contractor's and Supplier's construction risks has been addressed by ensuring that an insurance coverage to be provided at the contractor/supplier's cost which will cover risks relating contractor's equipment, workmen's compensation and Third party liability as well as professional indemnity.

Distribution Companies

DLPC, CLPC, VECO, SEZ, MEZ and BEZ

DLPC, CLPC, VECO, SEZ, MEZ and BEZ currently maintain a combined policy for Industrial All Risk insurance policy with cover extensions for machinery breakdown, boiler explosion, comprehensive general liability and electronic equipment insurance with PNB General Insurers Co., Inc. in the aggregate amount of ₱4,226.8 million, ₱2,251.4 million for DLPC, ₱327.6 million for CLPC, ₱1,171 million for VECO, ₱374.2 million for SEZ, ₱69.8 million for MEZ and ₱32.8145.7 million for BEZ. The aggregate premium paid was ₱4.06 million and this was divided among the companies proportionate to their sum insured. The policy period is from May 28, 2008 to May 28, 2009.

DLPC properties are all situated in the franchise area of the company in Davao City, Panabo City, Municipalities of Carmen, Dujali and Sto. Tomas. The Industrial All Risk policy covers the following:

Properties Insured	Amount (millions)	Valuation
Power Plant	₱344.3	Sound Value
Buildings	241.5	Replacement Value
Substation	1,409.8	Replacement Value
Computers, Furniture & Fixtures	33.1	Replacement Value
Inventory	222.7	Landed Cost

CLPC properties are all situated in its the franchise area of the company in Cotabato City. The policy covers the following:

Properties Insured	Amount (millions)	Valuation
Power Plant	₱99.0	Sound Value
Buildings	36.2	Replacement Value
Substation	126.3	Replacement Value
Computers, Furniture & Fixtures	5.5	Replacement Value
Inventory	60.6	Landed Cost

VECO properties are all situated in its franchise area of the company in the Cities of Cebu, Talisay and Mandaue, Municipalities of San Fernando, Naga, Minglanilla, Consolacion and Liloan. The policy covers the following:

Properties Insured	Amount (millions)	Valuation
Buildings	₱155.7	Replacement Value
Substation	666.1	Replacement Value
Computers, Furniture & Fixtures	157.5	Replacement Value
Inventory	180.6	Landed Cost
Leasehold Improvement	11.0	Replacement Value

SEZ properties are all situated in the Subic Bay Freeport Zone, Olongapo City, Zambales. The policy covers the following:

Properties Insured	Amount (millions)	Valuation
Buildings and Land Improvement	₱34.9	Replacement Value
Machinery and Equipment	251.0	Replacement Value
Computers, Furniture & Fixtures	4.1	Replacement Value
Inventory	45.3	Replacement Value
SCADA System	12.2	Replacement Value
Leasehold Improvement	26.7	Replacement Value

MEZ properties are all situated in the economic zone of Mactan, Cebu. The policy covers the following:

Properties Insured	Amount (millions)	Valuation
Machinery and Equipment	₱69.0	Replacement Value
Computers, Furniture & Fixtures	0.7	Replacement Value
Inventory	0.2	Replacement Value

BEZ properties are all situated in the economic zone of Balamban, Cebu. The policy covers the following:

Properties Insured	Amount (millions)	Valuation
Machinery and Equipment	₱30.1	Replacement Value
Computers, Furniture & Fixtures	0.2	Replacement Value
Inventory	2.5	Replacement Value

DLPC, VECO and CLPC also currently maintain a comprehensive general liability insurance policy with PNB General Insurers Co., Inc. in the amount of ₱25.0 million. This policy is shared among the three companies. The policy period is from October 1, 2008 to September 30, 2009. Total premium paid was ₱243.8 thousand and this was divided as 40.0% DLPC, 40.0% VECO and 20.0% CLPC.

SFELAPCO

SFELAPCO maintains an Industrial All Risk insurance policy covering their buildings, inventory, substations and transmission lines within their franchise area for ₱243.86 million. The policy was issued by UCPB General Insurance Co., Inc. with a premium paid of ₱364.9 thousand and covering one year period ending July 31, 2009.

Employee Insurance

GENERATION

SNAP-MAGAT, SNAP-BENGUET and MORE

SNAP-Magat, SNAP-Benguet and MORE provide eligible employees with group medical insurance that covers hospitalization expenses of up to a specified maximum amount of ₱300,000 per confinement, an annual medical allowance of ₱3,000 per employee, out-patient benefits and coverage for a maximum of two dependents per employee. Asian Life and General Assurance Corp. issued the policy covering the period March 6, 2009 to March 6, 2010.

Another insurance offered by SNAP-Magat, SNAP-Benguet and MORE to its employees are the group accident and group life insurance that provides death and disability benefits. The benefits range from ₱750 thousand to ₱2 million depending on the rank of the affected employee. The group accident policy is effective from March 2009 to March 2010 while group life policy is effective from April 8, 2009 to April 7, 2010.

CPPC and EAUC

CPPC and EAUC extended medical insurance benefits to its employees that cover hospitalization expenses of up to a maximum amount of ₱300 thousand per illness every year. The provider is Intellicare, and the policies cover the period December 1, 2008 to November 30, 2009.

Another insurance offered by CPPC and EAUC to their employees is the group accident insurance. The benefit is equivalent to 26 times the covered employee's monthly salary plus 20.0%. Employees are entitled to reimbursement for hospital and medical expenses cause by accident. The policy was issued by United Coconut Planters Life Assurance Corporation covering the period from April 8, 2009 to April 7, 2010.

WMPC and SPPC

WMPC and SPPC extended medical insurance benefits to its employees that cover hospitalization expenses ranging ₱50 thousand up to a maximum of ₱100 thousand every year depending on the rank of the employee. They give ₱50 thousand to the rank and file, ₱80 thousand to the supervisors and ₱ 100 thousand to managerial level. The policy was issued by Cocolife Insurance covering the period April 1, 2009 to March 31, 2010.

WMPC and SPPC also extend group accident insurance and group life insurance to their employees. The group accident insurance is provided by Philam Life for the period from January 15, 2009 to January 14, 2010 with benefits ranging from ₱700 thousand to ₱1.5 million depending on rank. On the other hand, the group life insurance is provided by Cocolife Life for the period from August 1, 2008 to July 31, 2009 with benefits ranging from ₱800 thousand to ₱2 million depending on rank.

LHC

LHC provides group accident insurance to its employees with the policy issued by Paramount Life and General Insurance Corp. The policy extends to accidental death and disablement amounting to ₱2 million for managers & up, ₱900 thousand for supervisors and ₱350 for rank & file. It also covers medical reimbursements of ₱200 thousand for managers & up, ₱90 thousand for supervisors and ₱35 thousand for rank & file. Another benefit from the policy is burial expense cover for ₱10 thousand to all employees. The last that employees are covered against is from murder and assault amounting to ₱ 1 million for manager & up, ₱450 thousand for supervisors and ₱175 for rank & file. The policy is effective February 26, 2009 to February 26, 2010.

Hedcor, Inc.

HEDCOR provides only Group Accident Insurance to its employees ranging from ₱100 thousand to P3 million depending on the rank of the employees. The policy grants ₱3 million to company officers, ₱2 million to manager up to AVPs, ₱ 1 million to supervisors 2, ₱650 thousand to supervisors 1 and rank & file 1, ₱450 thousand to rank & file 2, ₱250 thousand to provisionary and ₱100 thousand to contractual employees. The policy was issued by Philam Life covering the period September 30, 2008 to September 30, 2009.

Hedcor Sibulan, Inc. and Hedcor Tamugan, Inc.

Hedcor Sibulan, Inc. and Hedcor Tamugan, Inc. grant hospitalization insurance to their project directors for P500 thousand. The insurance plan was issued by Philam Life effective January 16, 2008 to January 16, 2009. They also provide a Philam Life group accident insurance to their project directors for ₱4 million from period September 30, 2008 to September 30, 2009.

DISTRIBUTION

SEZ, MEZ and BEZ

SEZ, MEZ and BEZ provide employees with medical insurance of up to ₱100 thousand a year. The policy was issued by Generali Pilipinas Life that covers the period February 27, 2009 to February 27, 2010. The companies also provide group accident insurance the covers accidental death, permanent disablement and murder & assault of up to ₱300 thousand. This has an extension of burial expenses of up to ₱20 thousand when it is accident related. The policy was issued by MAA General Assurance and covering the period March 9, 2009 to March 9, 2010.

SFELAPCO

SFELAPCO gives their employees a hospitalization insurance of ₱75 thousand a year and a group accident insurance of ₱1.8 million. Effectivity of the cover is July 1, 2008 up to July 1, 2009 and the policy was issued by I-care.

CLPC

CLPC has a group medical insurance that provides employees a host of medical benefits. Incorporated in this policy is the group life insurance worth ₱30,000 for each of its employees. This policy is provided by Generali Pilipinas Life Assurance Company for the period February 1, 2009 to February 1, 2010.

EMPLOYEES AND LABOR RELATIONS

On the parent company level, AP has a total of 21 employees as of December 31, 2008, composed of executive, supervisory, and rank and file staff. There is no existing collective bargaining agreement covering AP employees.

As of December 31, 2008, the Company, its consolidated Subsidiaries, LHC, VECO, SNAP-Benguet, SNAP-Magat, EAUC and MORE employed a total of 1,645 employees, of which 1,377are directly employed by the Company and its consolidated Subsidiaries.

Management believes that the Company's current relationship with its employees is generally good and neither the Company nor any of its Subsidiaries (including VECO) have experienced a work stoppage as a result of labor disagreements. However, 116 former employees of VECO who voluntarily accepted payments under VECO's redundancy program have filed labor cases alleging that they were illegally dismissed. VECO has vigorously defended itself and the cases are pending resolution with the National Labor Relations Commission.

The following table provides a breakdown of total employee headcount on a per company basis, divided by function, as of December 31, 2008:

Business Unit	Number of Employees					Unionized Employees	Expiry of CBA
	Total	Executives	Managers	Supervisors	Rank & File		
Aboitiz Power Corporation	21	10	3	2	6	0	NA
Aboitiz Energy Solutions, Inc.	14	0	1	4	9	0	NA
Balamban Enerzone Corporation	7	0	0	1	6	0	NA
Mactan Enerzone Corporation	14	0	0	1	13	0	NA
Philippine Hydropower Corporation	6	0	0	6	0	0	NA
Cebu Private Power Corporation	42	0	2	13	27	0	NA
East Asia Utilities Corporation	44	1	3	13	27	0	NA
Luzon Hydro Corporation	37	2	5	4	26	0	NA
Manila-Oslo Renewable Enterprise, Inc.	32	2	9	18	3	0	NA
Subic Enerzone Corporation	47	1	1	5	40	0	NA
SN Aboitiz Power-Magat, Inc.	53	0	3	12	38	0	NA
SN Aboitiz Power-Benguet, Inc.	102	0	7	27	68	0	NA
Abovant Holdings Inc.	6	0	0	6	0	0	NA
Steag State Power Inc.	187	3	18	34	132	0	NA
Western Mindanao Power Corporation	71	0	3	18	50	0	NA
Southern Philippines Power Corporation	66	0	3	17	46	0	NA
Cotabato Light & Power Company	64	1	1	13	49	49	6/30/09
Davao Light & Power Company, Inc.	411	19	126	61	205	205	6/15/09
Hedcor, Inc.	275	5	7	14	249	249	9/19/13
Visayan Electric Company, Inc.	470	7	23	23	417	417	12/31/11
San Fernando Electric Light and Power Company	92	2	3	19	68	68	5/31/11
TOTAL NO. OF EMPLOYEES	**2,061**						

The Company does not anticipate any increase in manpower within the next 12 months unless new development projects and acquisitions would materially require an increase. The Company cannot provide definite figures as to future manpower requirements of new development projects and acquisitions since the realization of such projects are dependent on, among others, the abililty of the Company to win bids in the privatization of power plants.

Employee Retirement Benefits

AP

AP's retirement plan provides for the payment of a normal retirement benefit of 150% of an eligible employee's final basic salary multiplied by the number of years of service. Employees who are 60 years of age or have completed 30 years of service are eligible for normal retirement. An early retirement benefit which is 85%-96% of the accrued retirement benefit may be availed by eligible employees who elect to retire at the age of at least 50 after rendering at least 20 years of service.

VECO

Permanent and regular employees of VECO who have rendered service for at least five years are eligible for the VECO retirement plan. Eligible employees who reach 60 years of age or who have served VECO continuously for 29 or 30 years are entitled to retirement benefits equivalent to one month's pay, multiplied by 1.875 for every year of service plus 1 or 2 months pay. An employee who dies while in the service shall receive the same benefits under the normal retirement plan.

DLPC

DLPC's retirement plan provides for the payment of a normal retirement benefit of 150% of an eligible employee's final basic salary multiplied by the number of years of service from January 2, 2006 up to retirement date and 100% of an employee's final basic salary multiplied by the number of years of service prior to January 2, 2006. Employees who are 60 years of age or have completed 30 years of service are eligible for normal retirement. An early retirement benefit which is 60%-96% of the accrued retirement benefit may be availed by eligible employees who elect to retire at the age of at least 50 after rendering at least 20 years of service.

CLPC

CLPC's retirement plan provides for the payment of a normal retirement benefit of 100% of an eligible employee's final basic salary multiplied by the number of years of service. Employees who are 60 years of age or have completed 30 years of service are eligible for normal retirement.

An early retirement benefit which is 60%-96% of the accrued retirement benefit may be availed by eligible employees who elect to retire at age of at least 50 after rendering at least 20 years of service.

SEZ

SEZ's retirement plan provides for the payment of (i) a normal retirement benefit of 100% of an employee's final basic salary multiplied by the number of years of service to employees who have completed 30 years of service or who have reached 60 years of age and (ii) an early retirement benefit which is 85%-96% of the accrued retirement benefit to employees who elect to retire at the age of at least 50 after rendering at least 20 years of service.

SFELAPCO

SFELAPCO's retirement plan is integrated in its CBA with the SFELAPCO employees' union. Under the terms of the SFELAPCO CBA, employees who reach 60 years of age have the option to retire and receive one month's salary for every year of service. SFELAPCO provides for mandatory retirement for employees who reach 65 years of age. The SFELAPCO CBA also provides for an early retirement benefit for employees who have rendered at least 5 years of service. Eligible employees who elect early retirement are entitled to 50%-175% of their monthly pay for every year of service.

Hedcor

The CBA between Hedcor and its employees' union provides for normal and early retirement benefits. Hedcor employees who are union members and who reach 55 years of age or have rendered 30 years of service are entitled to one month's pay for every year of service. Union members who have rendered at least 15 years of service may apply for early retirement. If a request for early retirement is granted by Hedcor, the employee concerned is entitled to receive one month's pay for every year of service.

Employees of Hedcor who are not union members are eligible for normal retirement benefits when they reach the age of 60 or have rendered 30 years of service. Eligible employees are entitled to one month's pay for every year of service.

LHC

LHC's retirement plan provides for the payment of (i) a normal retirement benefit of 100% of an eligible employee's final basic salary multiplied by the number of years of service and (ii) an early retirement benefit of 85% to 96% of accrued retirement benefits to eligible employees who elect to retire at age of at least 50 or after rendering at least 20 years of service. Employees who are 60 years of age or have completed 30 years of service are eligible for normal retirement.

EAUC and CPPC

EAUC's and CPPC's retirement plans provides benefits for all regular and full-time employees who are to be compulsorily retired upon reaching 65 years of age, any regular employee upon reaching the age of 60 with at least five years of credited service and any regular and full-time employee who reaches 50 years of age and who has completed 10 years of credited service. Eligible employees will receive one lump sum of one-and-a-half times of such employee's average monthly salary for the six months preceding the time of retirement multiplied by each year of credited service. The plan also provides for a resignation gratuity of one to six months of pay for employees who voluntarily resign from the Company, depending on the number of years of service, with a minimum service requirement of five years to be eligible.

Executive/Employee Stock Option Plan

The Company does not have any executive/employee stock option plan and does not have any plan to provide such benefit in the near future.

Compensation and Performance Management

The Company has adopted a compensation policy, which it believes to be competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new employees. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives.

Employee Retention

Recently, the Distribution Companies, particularly VECO and DLPC, have lost the services of some of their skilled technical personnel, such as linemen and engineers, who have taken better-compensating employment opportunities outside the Philippines, particularly in Australia. The Distribution Companies have implemented certain measures to address this employee attrition, including a review of their compensation policies and benefits to ensure that competitive wages are paid and competitive benefits are provided to employees. They have also instituted company climate and employee satisfaction surveys. Promotions and career opportunities also expand as employee transfers between companies take place. They have also stepped up their efforts to hire and train replacements for employees lost to overseas employment. As a result of these efforts, the Company believes that the Distribution Companies have experienced employee turnover consistent with industry standards.

Further, since control of the day-to-day operations and management of VECO was assumed by AEV in 2004, managers and administrators employed by DLPC have provided, and expect to continue to provide, services for VECO. Although this has placed constraints on DLPC's staffing capabilities, it has not resulted in increased employee attrition. Both VECO and DLPC are taking steps to hire and train managers and administrators for VECO who can assume the roles currently filled by personnel seconded from DLPC.

SAFETY, HEALTH AND ENVIRONMENTAL REGULATION AND INITIATIVES

AP and its Subsidiaries exert a conscious effort to maintain sound safety, health and environmental practices. These efforts have been recognized and acknowledged by various government agencies and community partners.

Hedcor is certified under ISO 9001:2000 for quality and ISO 14001:1996 for Environmental Management System. It continues to monitor and comply with the stipulations of the certification to constantly maintain the standards it aims to sustain.

Hedcor signed a Watershed Management Plan to protect 1,000 hectares of the Mt. Apo Natural Park. The plan outlines measures for reforestation, agro-forestry and erosion control.

Hedcor has been the recipient of the Gawad Kaligtasan and Kalusugan award more than once. This award is given by the DOLE and recognizes Hedcor as one of the safest companies in the country. Hedcor received a citation from DOLE for their sound health, safety and environmental practices. In 2008, they received the Gawad Kaligtasan at Kalusugan award from DOLE after a nationwide search. TESDA has also accorded Hedcor with its Kabalikat Award for its continuing promotion and enhancement of technical education and skills development in the country. Hedcor is also a partner that administers the World Environment Day Essay Writing Contest which aims to increase awareness and appreciation of the benefits of clean and renewable energy.

Among Hedcor's advocacy in Benguet is a commitment to conduct Solid Waste Management training for its neighboring communities.

SNAP-Magat has been recognized for its contribution to development of local communities. Two of the company's directors have been adopted as native sons of the Ifugao tribe that inhabit the area. SNAP-Magat's community support program encompasses areas of environmental management, education and health.

SNAP-Benguet is set to rehabilitate and upgrade the Ambuklao and Binga plants. Plans are in place for the rehabilitation and refurbishment project upgrade to be registered as a Clean Development Mechanism (CDM) project to generate carbon credits which will help reduce carbon dioxide emissions in the Luzon Grid by displacing energy generated from coal, diesel and other thermal plants.

The combined generation capacity from the different renewable energy projects qualifies the Company as the number one generator of renewable energy in the Philippines.

The distribution companies under AP have also undertaken their effort to strengthen safety, health and environment campaigns.

VECO launched a campaign called, "Save Power, Save Money, Save the Environment". It distributes energy saving tips through its website. It is also heavily involved in the campaign to use compact fluorescent light bulbs instead of the incandescent bulb.

STEAG Power undertakes aggressive social and environmental programs. By tapping into a number of volunteers, STEAG Power has enabled the planting of 65,000 trees.

As a signatory of the Kyoto Protocol, the Philippines can participate in greenhouse gas emission reduction through the CDM. The Sibulan Project of Hedcor Sibulan is a registered CDM project. This means that the project is able to prevent carbon emissions measured in tons of CO_2. The project is expected to generate carbon credits that it can eventually trade in the carbon market. AP continues to explore CDM possibilities in its projects.

AP has started exploring accounting possibilities for its carbon dioxide emissions. It has started a greenhouse gas inventory among the different subsidiaries which aims to measure and monitor emissions generated from its business operations. Eventually, a greenhouse gas emissions management scheme will be developed internally leading towards reduction of carbon dioxide emissions by promoting energy efficiency and carbon sequestration through tree planting.

Each of the hydroelectric power projects is subject to a mandated watershed management plan intended to maintain the integrity of the renewable resource used to generate electricity. A watershed management plan enables a company to adopt a watershed with the commitment to reforest and sustainin its healthy vegetative state.

The Company also pursues other efforts to partner with other groups for alternative environmental programs. DLPC is the first business entity in Mindanao to sign a Memorandum of Agreement with Motolite and Philippine Business for Social Progress for the Balik Baterya program.

AP is committed to enhance its Cleanergy brand. Being one of the leading providers of renewable energy in the country, it remains steadfast in its commitment to make available clean energy to all Filipinos.

The Company's power generation and distribution operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations, such as the Clean Air Act (Republic Act No. 8749), address, among other things, air emissions, wastewater discharges, the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste, workplace conditions and employee exposure to hazardous substances. Each of the Generation Companies and the Distribution Companies has incurred, and expect to continue to incur, operating costs to comply with such laws and regulations.

In addition, each of the Generation Companies and the Distribution Companies has made and expects to make capital expenditures on an ongoing basis to comply with safety, health and environmental laws and regulations. In particular, the Generation Companies, such as LHC and Hedcor, incur expenses to ensure the preservation of the watershed areas where their respective hydroelectric plants are located.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that the Company make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the Company's financial condition, results of operations and cash flow.

CORPORATE SOCIAL RESPONSIBILITY

The Company recognizes that as an energy company, its operations have an impact on society and on the environment. In addition to ensuring that its generation and distribution facilities are operated efficiently and in a manner that meets the Government's environmental standards, the Company is committed to ensuring that the communities where it operates also benefit and develop together with the Company. To this end, the Company has sponsored community development projects in partnership with local government units and other local stakeholders to help address the economic, socio-cultural, health, education and environmental concerns of these communities. For the last two years ending in December 31, 2008, the Company implemented projects with an aggregate amount ₱4.5 million to assist the communities where it operates.

The Subsidiaries and Affiliates of the Company have also contributed to the electrification of the communities where its generation facilities are located and provide financial assistance to residents of these communities.

The Generation Companies have entered into agreements with the different local government units in their areas where their hydroelectric plants are located. These companies commit to adopt preferential hiring policies for local residents and to donate a portion of its net sales to the local government units concerned. They have likewise financed infrastructure development projects, providing funding for roads and water systems.

In turn, local governments agree to extend their full cooperation and assistance for the protection of the watersheds and the maintenance of peace and order.

For the three years ending as of December 31, 2008, Hedcor contributed a total of ₱49.5 million by way of negotiated benefits package to the local community through ongoing energy generating projects, missionary electrification, reforestration and development and livelihood programs. In addition, Hedcor assisted its host communities through various social development projects in the total amount of ₱164.2 million for the same period.

Although Hedcor is exempted from complying with the provisions of Energy Regulation 1-94 as it falls under energy-generating facility with less than 10MW of aggregate capacity and has ongoing energy generating projects with benefits that are at least substantially equal to or better than the benefits provided under the Energy Regulation 1-94, it has been directly extending financial assistance funded from a percentage of its gross income to its local communities since the start of its operations.

Furthermore, for the three years ending as of December 31, 2008, SPPC and WMPC have contributed a total of, ₱3.9 million and ₱3.4 million, respectively, to missionary electrification, reforestation and development and livelihood programs as mandated by Energy Regulation No. 1-94 issued by the DOE while STEAG Power contributed ₱ 26.4 million in the last two years ending December 31, 2008.

In the case of LHC, the company has committed ₱23.5 million to comply with the mandate of Energy Regulation 1-94 as of the three years ending December 31, 2008. It has likewise allocated ₱74.4 million for missionary electrification, reforestration and development, livelihood programs, and social and infrastructure development to the host local community for the same period.

Aside from the mandatory requirements of the DOE under Energy Regulation No. 1-94, SPPC and WMPC voluntarily contributed to the social development in their areas of operations through community relation projects in the amounts of, ₱6.6 million and ₱8.6 million, respectively, for the same three-year period. STEAG Power, on the other hand, contributed ₱41.1 million for the last two years ending December 31, 2008.

The Distribution Companies likewise contribute to social development programs implemented by the Aboitiz Group. In partnership with the group's social development arm, the Aboitiz Foundation, Inc., the Distribution Companies have implemented projects in the areas of education, primary health and childcare, enterprise development and environmental protection. For the last three years, DLPC, CLPC, VECO, SEZ and SFELAPCO have contributed ₱49.0 million, ₱4.7 million, ₱9.4 million, ₱674 thousand and ₱2.0 million, respectively, to provide funding for these projects.

The group's affiliate, AESI likewise contributes to various communities through social development projects. In the last two years ending December 31, 2008, it has appropriated ₱866 thousand for various social development projects.

CERTAIN LEGAL PROCEEDINGS

MATERIAL PENDING LITIGATION

PEMC Investigation of Bakun plant dispatch

As a run-of-river facility, the Bakun plant is not considered either a peaking plant or a base load plant. It is considered an intermittent generator of electricity because it can only generate electricity from water flowing through the Bakun river at any given time, but without a guarantee of when and for how long a given load will occur. Under the Bakun PPA with NPC, for as long as water flow does not go below 0.3 cubic meters per second, the Bakun plant is required to generate electricity for delivery to NPC. If the water flow goes below 0.3 cubic meters per second, it becomes technically inadvisable to allow the Bakun plant to operate because this could result in irreparable damage to its turbines.

Electricity generated by the Bakun plant is traded in the WESM by traders for the PSALM for and on behalf of NPC, the contractual offtaker of the Bakun plant. Sometime during trading intervals on July 27 and 28, 2006, August 2, 20, 27, 28, 29, 30, and 31, 2006 and September 1, 4, and 6, 2006, the WESM determined there was overcapacity in the Luzon Grid at off-peak times. In order to avoid excessive frequency on the Luzon Grid, the Bakun plant was instructed by the Philippine Electric Market Corporation ("PEMC"), the market operator of the WESM, to reduce its load from approximately 40MW to 3 MW. LHC did not follow these dispatch instructions and did not reduce the load of the Bakun plant since there was sufficient water flow to run the plant at a load of more than 3 MW.

As a result of LHC's failure to comply with PEMC's dispatch instructions, PEMC sent PSALM, the trader of the Bakun plant's electricity, a notice of violation of the WESM rules. Although LHC is not a party to the investigations conducted by PEMC, LHC presented to the PEMC Board of Directors ("PEMC Board") the following reasons why it could not follow the PEMC dispatch instructions:

(a) LHC is required under the Bakun PPA to let the Bakun plant generate its nominated capacity and to deliver to NPC all electricity from available water supplies in accordance with the agreed technical operating parameters under the Bakun PPA;
(b) Being a run-of-river facility, the Bakun plant has no storage or impoundment capacity and a curtailment of the Bakun plant's load would result in huge losses to NPC from the non-generation of electricity from available water, as well as result in the waste of a renewable energy resource; and
(c) Curtailment of the Bakun plant to a load as low as 3 MW would have forced LHC to operate the Bakun plant manually, which is not technically prudent. This would have required LHC to de-water the Bakun plant abruptly, which the Bakun plant is not designed for and which could result in the collapse of the tunnel to the Bakun plant, leading to serious damage to property and risk to life.

The Technical Committee of the PEMC recommended the denial of LHC's request for a reclassification from its current WESM participant status as scheduled generator to a renewable energy with intermittent power resource. The recommendation has been submitted to the PEMC Board. However, the PEMC Board has yet to act on the aforesaid recommendation.

With the passage of the RE Law, LHC will have a legal basis to classify the Bakun plant as an intermittent generation since the RE Law provides for specific provisions on intermittent generation.

VECO Redundancy Program

1. Jeanu A. Du, et. al vs. VECO
(Aguinaldo Agramon et.al.)
NLRC RAB VII Case No. 04-0956-06
NLRC RAB VII Case No. 05-1014-06
NLRC RAB VII Case No. 05-1070-06
NLRC RAB VII Case No. 05-1099-06
NLRC RAB VII Case No. 05-1146-06
NLRC RAB VII Case No. 05-1193-06
NLRC RAB VII Case No. 06-1253-06
NLRC RAB VII Case No. 06-1300-06
NLRC RAB VII Case No. 06-1404-06
NLRC RAB VII Case No. 08-1708-06
CA GR SP No. 03379
Court of Appeals, 19th Division
June 15, 2006

2. Alejo C. Pol, et.al vs. VECO
NLRC RAB VII Case No. 08-1782-06
NLRC RAB VII Case No. 08-1878-06
NLRC RAB VII Case No. 08-1832-06
NLRC RAB VII Case No. 09-1953-06
NLRC RAB VII Case No. 08-1981-06
Cebu City
September 11, 2006

3. Melchor E. Custodio, Frederick Rivera & Henry Bacaltos vs. VECO
NLRC RAB VII CASE No. 11-2542-2006
NLRC RAB VII CASE No. 12-2714-2006
Cebu City
November 23, 2006

4. Bernard Acebedo & Alexander E. Alo vs. VECO
NLRC RAB-VII Case No. 06-1218-2007
Cebu City
June 12, 2007

VECO is involved in cases for illegal dismissal and/or nonpayment of retirement benefits filed by approximately one hundred and twenty (120) former employees claiming back wages, damages, and reinstatement. These employees previously accepted VECO's redundancy program, a program initiated in 2004 and which was explained and discussed at length with VECO's labor union and entire work force at that time. The employees, whose positions were made redundant, including complainants, received their individual notices of redundancy between May and November 2004. They were formally separated from VECO between the period June to December 2005. At the time of their separation from employment, each of the complainants read through, and was made to understand the contents of, and did sign their individual release, waiver, and quitclaim in the presence of a representative from the Department of Labor and Employment. These employees received separation benefits which were clearly above the minimum requirements provided under the Labor Code.

All the complaints have been dismissed for lack of merit at the labor arbiter level where VECO's redundancy program was upheld as a management prerogative. The majority of the dismissed complaints are now pending on appeal either before the 4th Division of the National Labor Relations Commission or the Court of Appeals. The potential claim against VECO is ₱309.80 million. It is VECO's position that it has paid these former employees separation pay and retirement benefits in amounts in excess of those

required by Philippine law and that it has valid defenses against the complaints brought against it by these former employees. VECO intends to defend itself against all these claims.

In The Matter Of The Assessed Real Property Tax On Electric Posts And Transformers Located Within Talisay City
Local Board of Assessment Appeals- Talisay City
December 30, 2003

On October 29, 2003, the City Assessor of Talisay City, Cebu issued a Notice of Assessment and Tax Bill (for Tax Declaration Nos. 68006 to 68065) against VECO for ₱10.50 milliion real property tax on VECO's electrical posts and transformers. The assessment was increased to ₱16.90 million in 2004. On November 17, 2005, the assessment was further increased to ₱17.50 million. In 2003, VECO paid under protest the amount of ₱2 million. This matter is currently pending before the Local Board of Assessment Appeals ("LBAA") of Talisay City. Despite the pendency of this case before the LBAA, VECO also filed last May 10, 2007 a letter-request for legal opinion/confirmation before the Bureau of Local Government Finance, Department of Finance ("BLGF-DOF") on the exemption from real property tax of VECO's electrical poles pursuant to VECO's legislative franchise. This request is also pending for resolution.

In The Matter Of The Assessed Real Property Tax On Electric Posts And Transformers Located Within The Municipalities Of Minglanilla, Consolacion and Lilo-an, Province of Cebu
Local Board of Assessment Appeals- Province of Cebu
September 23, 2008

On July 25, 2008, the Provincial Assessor of Cebu issued a Notice of Assessment for the electric poles and transformers owned by VECO located in the Municipalities of Minglanilla, Consolacion and Lilo-an. The Provincial Assessor, *motu proprio,* declared for tax purposes for the first time the said properties under Tax Declaration Nos. 39178 to 39193 (for Minglanilla), 39135 to 39166 (for Consolacion) and 54445 to 54458 (for Liloan). On August 27, 2008, VECO received a letter from the Provincial Treasurer demanding payment of approximately ₱32 million as real property tax due on the supposed real properties computed from year 1992 up to 2008, including penalties, to the three municipalities.

On September 23, 2008 VECO filed a Notice of Appeal and Memorandum of Appeal before the LBAA of the Province of Cebu questioning the demand letter and refuting the assessment on the following grounds: (i) VECO is exempt from paying real property tax on poles, wires and transformers by virtue of its legislative franchise (R.A. 9339); (ii) poles and transformers are not real properties; (iii) the valuation is erroneous and excessive; (iii) it includes assessments which have already prescribed; (iv) the municipalities did not give VECO the opportunity to present controverting evidence; (v) it did not consider depreciation cost of the assets; (vi) the assessment violates due process for it did not comply Section 223 of the Local Government Code of 1991; (vii) the Provincial Assessor erred in giving retroactive effect to the assessment in violation of Section 221 of the Local Government Code of 1991; and (viii) the assessments are null and void for lack of ordinance on the schedule of market values and lack of publication of the same.

To date, the said appeal is still pending resolution.

Visayan Electric Company vs. Commissioner of Internal Revenue
Court of Tax Appeals, 1st Division
C.T.A. Case Nos. 7108
March 1, 2004

VECO Tax Credit Certificate Case

VECO was assessed by the BIR the amount of ₱15.4 million inclusive of 25% surcharge and 20% interest, covering income taxes for the period ended December 31, 2002. This assessment stemmed from the use by VECO of tax credit certificates ("TCCs") which the BIR alleged were invalid. VECO protested the assessment before the First Division of the Court of Tax Appeals ("CTA"). Considering the mandatory participation of the BIR in reviewing and verifying the contested TCCs both at the time VECO purchased the TCCs and at the time these were used by VECO, VECO's management believed that VECO acquired and applied the TCCs in good faith, and therefore the assessment against it had no legal basis. Last January 23, 2008, VECO filed its memorandum before the CTA after both parties rested their respective cases.

Last March 5, 2008, VECO availed of the BIR's Tax Amnesty Program ("TAP") pursuant to RA 9480, otherwise known as the Tax Amnesty Act of 2007. The TAP extends to pending tax cases before the CTA such as the subject case. On October 2, 2008, the CTA issued a resolution finding VECO's TAP availment in full compliance with the provisions of RA 9480 and considered the subject case closed and terminated, subject to the one (1) year period for reinvestigation or audit under RA 9480 to be reckoned from the date of the TAP availment.

Per records of the CTA, the resolution was received by the BIR on October 3, 2008 to which the BIR has 15 days to elevate the matter to the CTA En Banc. As of this date, VECO has not yet received a copy of the petition for review from the BIR or a Motion for Extension of Time to File a Petition for Review.

Luzon Hydro Corporation vs. The Province Of Benguet, The Provincial Treasurer Of Benguet And Hon. Imelda I. Macanes In Her Capacity As Provincial Treasurer Of La Trinidad, Province Of Benguet
Civil Case No. 08-CV-2414
RTC Branch 10, La Trinidad, Benguet
March 7, 2008
On October 11, 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax for the years 2002 to 2007 in the approximate amount of ₱40,400,000, inclusive of surcharges and penalties. LHC filed a protest letter with the Provincial Treasurer in December 2007 based on the legal position that LHC is not a grantee of any legislative franchise on which basis franchise taxes may be imposed. On February 8, 2008, the Provincial Treasurer, through the Provincial Legal Officer, denied LHC's protest letter. On March 7, 2008, LHC filed before the RTC of Benguet a petition against the Provincial Treasurer of Benguet for the annulment of the franchise tax assessment.

During the scheduled pre-trial conference on August 21, 2008, the counsel for the Province of Benguet moved for the postponement of the scheduled pre-trial because of his client's pending Motion to Disclose Documents and/or Produce Documents. On September 24, 2008 LHC filed its Opposition to the aforementioned Motion to Disclose and/or Produce Documents. During the hearing of the motion, the Province of Benguet also moved for the production of LHC's Power Purchase Agreement with NPC. LHC subsequently filed its Opposition to the Motion for the Production of the Power Purchase Agreement last November 7, 2008. In several instances LHC have argued that the requested documents are irrelevant to the issue of whether or not it is liable for franchise tax. To resolve this motion, the court ordered Plaintiff's counsel to present a copy of the PPA to the court to determine its relevancy.

During the January 29, 2009 hearing, LHC presented to the court a copy of the PPA in compliance with the court order. However, the court noticed that page 36 is missing in LHC's copy of the PPA version.

LHC presented a complete set of the PPA during the hearing last February 26, 2009. The continuation of the pre-trial proceedings is set on May 7, 2009.

HEDCOR Inc. vs. The Province of Benguet, The Provincial Treasurer of Benguet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer
Civil Case No. 08- CV-2414
RTC Br. 63, La Trinidad, Benguet
Jan. 18, 2008

On October 22, 2007, Hedcor received a franchise tax assessment from the Provincial Treasurer of the Province of Benguet requiring Hedcor to pay the unpaid franchise taxes of HEDC and Northern Mini Hydro Corporation ("NMHC") in the approximate amount of ₱30.9 million, inclusive of surcharges and penalties, for the fourth quarter of 1995 up to 2007. Hedcor filed a protest letter which was denied by the Provincial Treasurer in a letter dated November 27, 2007 on the basis that HEDC and NMHC are not required to pay franchise taxes.

Pursuant to Section 195 of the Local Government Code, Hedcor filed a petition last January 4, 2008 against the Provincial Treasurer before the RTC to annul the assessment of the franchise tax. On February 18, 2008 the Province of Benguet filed its answer to the petition, insisting on the liability of Hedcor, and relying on the Articles of Incorporation of Hedcor to substantiate its allegation that Hedcor possesses both a primary and secondary franchises. Hedcor is of the opinion that it is not liable for franchise tax since it does not need a national franchise to operate its business, pursuant to Section 6 of R.A. 9136 or the EPIRA. Moreover, Hedcor argues that it is a separate and distinct legal entity from HEDC and NMHC, and as such, it cannot be made liable for whatever obligation, if any, as may pertain to HEDC and/or NMHC.

This case is now tried jointly with the Hedcor National Wealth Tax Assessment case described below. Please refer to the summary of the Hedcor National Wealth Tax Assessment case found below for additional information/update.

HEDCOR Inc. vs. The Province of Benguet, The Provincial Treasurer of Benguet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer
Civil Case No. 08-CV-2416
RTC Br. 63. La Trinidad, Benguet
December 21, 2007

On October 25, 2007, Hedcor received from the Provincial Treasurer of Benguet an assessment in the amount of ₱30,500,000 representing the share of the Province and host municipalities and barangays in the national wealth tax due from HEDC and NMHC for the years 1997 to 2007. On December 21, 2007, Hedcor filed its protest letter with the Provincial Treasurer of Benguet stating that it is a separate and distinct legal entity from HEDC and NMHC. Hedcor only acquired the hydroelectric power plants, which are the subject of the assessed national wealth tax, from HEDC and NMHC on June 25, 2005. Prior to June 25, 2005 Hedcor did not own any operating hydroelectric power plants. Thus, if Hedcor is indeed liable for any national wealth tax with respect to the operation of the hydroelectric power plants, it is liable only for taxes after June 25, 2005.

In addition, Hedcor is of the opinion that the Province of Benguet does not have legal basis to collect national wealth tax from private generation companies prior to the effectivity of RA No. 9136 or the EPIRA in June 2001. Since June 2005, Hedcor has been contributing the amount equivalent to 3% of its gross revenues to its host municipalities and barangays in compliance with the national wealth tax provision contained in Section 291 of the Local Government Code. Hedcor has been generously paying amounts higher than the amount required by the Local Government Code.

The pre-trial conferences of both the national wealth and franchise tax cases pending before the RTC of Benguet were held last December 3, 2008. Petitioner Hedcor is in the process of presenting its evidence in the two cases.

Mactan Electric Co. vs. Acoland, Inc.
Civil Case No. MDI-56
RTC Branch 56, Mandaue City
June 16,1996

On July 16, 1996, MECO filed a quo warranto case against Aboitiz Land, Inc. ("Aboitizland") attacking the latter's legal basis to distribute power within the Mactan Export Processing Zone II ("MEPZ II") as well as the Philippine Economic Zone Authority's ("PEZA") authority to grant Aboitizland the operation or distribution of power in the area in question. MECO argues that Aboitizland does not possess the legal requirements to distribute power within MEPZ II, and that the amendment of Aboitizland's Articles of Incorporation to include the right to engage in the operation, installation, construction and/or maintenance of electric and other public utilities only six (6) days after the filing of this case was an afterthought, and as a consequence, it is liable to pay damages to MECO. MECO further alleges that PEZA has no right to grant franchise to distribute electricity within the MEPZ II.

Aboitizland's argument that the Special Economic Zone Act of 1995 RA No. 7916 which created PEZA grants the latter broad powers and functions to manage and operate special economic zones, that these include the power to grant enfranchising powers under Section 12(c) and 13(d) thereof, and that the SEC approval of its amended Articles of Incorporation is valid. Regarding damages, Aboitizland argues this was not prayed for in MECO's petition for quo warranto and the courts have no basis to grant any damages.

The PEZA, intervened and argued that, it is authorized by its charter to undertake and regulate the establishment and maintenance of utilities including light and power within economic zones under its jurisdiction. In doing so, it can directly construct, acquire, own, lease, operate, and maintain on its own or through contract, franchise, license, bulk purchase from the private sector, and build-operate-transfer scheme or joint venture, adequate facilities such as light and power.

The parties are currently undergoing court-mandated mediation proceedings.

In 2007, with the approval of PEZA, Aboitizland transferred all of its power assets and business to MEZ, which is now the real party in interest in the case.

In The Matter Of The Assessed Real Property Tax On Machineries Located Within The Municipality of Bakun, Province of Benguet
Central Board of Assessment Appeals
CBAA Case No. L-57/5

LHC Real Property Tax Assessment

The Municipality of Bakun, Province of Benguet issued an assessment against LHC for deficiency real property tax on its machineries in the amount of approximately ₱11.0 million, inclusive of interests and penalties, for the period 2002. The assessment was appealed by LHC to the LBAA. NPC intervened in the proceedings before the LBAA arguing that (i) the liability for the payment of real property tax over the machineries is assumed by NPC under Section 8.6(b)under the Bakun PPA dated as of November 24, 1996; and (ii) NPC is exempted from the payment of real property tax under Section 234 of the Local Government Code, which provides that machineries that are actually, directly and exclusively used by government-owned and controlled corporations engaged in the generation and transmission of electric power are not subject to the real property tax. The LBAA ruled in favor of the Municipality of Bakun on the ground that NPC cannot invoke the exception under Section 234 of the Local Government Code because the machineries covered by the assessment are not yet owned by NPC.

NPC further appealed the ruling of the LBAA to the Central Board of Assessment Appeals ("CBAA") docketed as CBAA Case No. L-57/59. According to the CBAA, NPC sent a compromise proposal in 2006 to the CBAA. However, no compromise agreement has been reached by the parties to date.

Involvement in Certain Legal Proceedings of Directors and Executive Officers

People of the Philippines vs. Renato Francisco et. al. (c/o Fuller O' Brien Paint Company, Inc., Reliance St., Mandaluyong City)
Criminal Case No. 35-5784
MTC Branch 66, Makati City
July 19, 2007

On July 23, 2008, the Metropolitan Trial Court ("MTC") of Makati issued an order finding probable cause to hold the alleged directors/stockholders of Fuller O'Brien Paint Company, Inc. ("Fuller O'Brien"), including Erramon I. Aboitiz, for violation of PD No. 1752 or the Pag-Ibig Fund Law, as amended.

On September 1, 2008, warrants of arrest were issued by the MTC against the accused, including Mr. Aboitiz. Mr. Aboitiz through his counsel filed an Omnibus Motion before the MTC asking for: (i) the reconsideration of the order dated July 23, 2008 finding probable cause against him; (2) the recall/holding in abeyance of the warrant of arrest; and (3) the conduct of preliminary investigation/ reinvestigation.

The Home Development Mutual Fund ("HDMF") failed to file its comment or opposition to the Omnibus Motion within the period given to it by the MTC. On September 30, 2008 the MTC issued an o order granting the Omnibus Motion filed by Mr. Aboitiz. Consequently, the warrant of arrest issued against him was recalled. The Office of the City Prosecutor of Makati was also directed to conduct a preliminary investigation of the case as regards Mr. Aboitiz.

On October 24, 2008 Mr. Aboitiz filed his counter-affidavit with the Office of the City Prosecutor, maintaining that he should be excluded from the charges filed against the directors of Fuller O'Brien on the ground that he was no longer a director of Fuller O'Brien during the period when the alleged violations of the Pag-Ibig Fund have occurred.

MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

AP's common shares are traded on the Philippine Stock Exchange.

The high and low stock prices of AP's common shares for each quarter of 2008 were as follows:

	2008		2007	
	High	**Low**	**High**	**Low**
First Quarter	5.60	4.50	n.a.	n.a.
Second Quarter	5.60	4.80	n.a.	n.a.
Third Quarter	6.00	4.85	5.80	3.90
Fourth Quarter	5.00	3.25	5.80	4.70

The cash dividends declared by AP to common stockholders from 2007 to 2009 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Record Date
2009	₱0.20	₱1.47B	2/26/2009
2008	₱0.18	₱1.32B	2/21/2008
2007	-	-	-

AP intends to maintain an annual cash dividend payment ratio of approximately one-third of its consolidated net income from the preceding fiscal year, subject to the requirements of the applicable laws and regulations and the absence of circumstances which may restrict the payment of cash dividends, such as the undertaking by AP of major projects and developments requiring substantial cash expenditures or restrictions on cash dividend payments under its loan covenants.

Recent Sales of Unregistered or Exempt Securities

On December 18, 2008, the Company issued fixed-rate corporate notes (with maturities of 5 years and 7 years) in the aggregate amount of ₱3.89 billion (the "Notes"), pursuant to the terms and conditions of a Notes Facility Agreement entered into with BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch as Joint Lead Managers and BPI Assets Management & Trust Group as Notes Facility Agent. The Notes were issued on a private placement basis to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules.

OWNERSHIP

List of Top 20 Stockholders
As of February 28, 2009

Name	Number of Shares	Percentage
1. ABOITIZ EQUITY VENTURES, INC.	5,594,840,517	76.03%
2. PCD NOMINEE CORPORATION (Filipino)	913,737,761	12.42%
3. PCD NOMINEE CORPORATION (Foreign)	543,992,065	7.39%
4. ABOITIZ LAND, INC.	151,112,722	2.05%
5. DANIELE MANAGEMENT & DEVELOPMENT CORPORATION	18,855,392	0.26%
6. SAN FERNANDO ELECTRIC LIGHT AND POWER CO., INC.	7,931,034	0.11%
7. PARRAZ DEVELOPMENT CORPORATION	7,068,760	0.10%
8. LILOAN AGRO INDUSTRIAL DEVELOPMENT CORPORATION	6,051,405	0.08%
9. SIERRAROSA, INC.	5,298,022	0.07%
10. KAYILKA HOLDINGS, INC.	5,193,080	0.07%
11. SABIN M. ABOITIZ	5,192,746	0.07%
12. LMM HOMES MANAGEMENT & DEVELOPMENT CORPORATION	4,997,630	0.07%
13. ARMOZA MANAGEMENT & DEVELOPMENT CORPORATION	4,043,078	0.05%
14. VALERIA CAVESTANY	3,217,888	0.04%
15. BANILAD ESTATE INC.	2,750,000	0.04%
16. EMETASI HOLDINGS INC.	2,750,000	0.04%
17. JAIME JOSE ABOITIZ	2,362,500	0.03%
18. IKER M. ABOITIZ	2,145,872	0.03%
19. LUIS MIGUEL ABOITIZ	2,060,000	0.03%
20. SANFIL MANAGEMENT CORPORATION	2,026,263	0.03%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated financial condition and results of operations and certain trends, risks and uncertainties that may affect its business. The critical accounting policies section discloses certain accounting policies and management judgments that are material to the Company's results of operations and financial condition for the periods presented in this Prospectus. The discussion and analysis of the Company's results of operations is presented in two comparative sections: the year ended December 31, 2008 compared with the year ended December 31, 2007, the year ended December 31, 2007 compared with the year ended December 31, 2006.

Prospective investors should read this discussion and analysis of the Company's consolidated financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto set forth elsewhere in this Prospectus.

KEY PERFORMANCE INDICATORS

Management uses the following indicators to evaluate the performance of the Company and its subsidiaries:

1. **Equity in Net Earnings (Losses) of Investees**. This represents the AP Group's share in the undistributed earnings or losses of its investees for each reporting period after the acquisition of said investments, net of impairment loss, if any. Equity in net earnings (losses) of investees indicates the profitability of the investments and the investees' contribution to the AP Group's net income.

   Manner of Computation: Investee's Net Income (Loss) x Investor's Percentage Ownership less Impairment Loss.

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** Represents Net Income after adding provisions for income tax, depreciation and amortization, net financial expense, and non-recurring losses such as net foreign exchange loss and net loss on disposal of assets. It provides management and investors with a tool for determining the ability of the AP Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the AP Group's ability to service its debts.

3. **Cash Flow Generated**. Using the Statements of Cash Flows, management determines the sources and usage of funds for the period, and analyzes how the AP group manages its profit and uses its internal and external sources of funds. This aids management in identifying the impact on cash flow when the AP Group's activities are either in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **Current Ratio**. This is a measurement of liquidity, calculated by dividing total current assets by the total current liabilities. It is an indicator of the AP Group's short–term debt paying ability. The higher the ratio, the more liquid is the AP Group.

5. **Debt–to–Equity Ratio**. This gives an indication of how leveraged the AP Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total liabilities by total equity.

The table below shows the comparative figures of the top five (5) key performance indicators for 2008 and 2007 (as restated):

DISCUSSION ON KEY PERFORMANCE INDICATORS:

Key Performance Indicators	2008	2007 (As restated)
Amounts in thousands of ₱ s, except for financial ratios		
EQUITY IN NET EARNINGS OF ASSOCIATES	**2,784,512**	**2,803,833**
EBITDA	**5,406,974**	**5,584,406**
CASH FLOW GENERATED:		
Net cash flows from operating activities	1,892,386	3,998,435
Net cash flows (used in) investing activities	(5,952,784)	(8,694,912)
Net cash flows from financing activities	5,227,107	16,705,532
Net Increase in Cash & Cash Equivalents	**1,166,709**	**12,009,055**
Cash & Cash Equivalent, Beginning	13,287,811	1,494,272
Cash & Cash Equivalent, End	14,915,384	13,287,811
CURRENT RATIO	**2.19**	2.52
DEBT-TO-EQUITY RATIO	**0.54**	**0.32**

Above key performance indicators are within management expectations.

Earnings contributions of power assets acquired in 2007 remained significant contributors to the equity net earnings compared to amounts recorded in the same period last year. The year 2008 ended with incremental contributions from the full year contributions of these companies with the largest incremental contribution coming from STEAG Power, which contributed ₱1.09 billion. From the full year income of EAUC, also a recent acquisition, came an incremental contribution of ₱112 million. LHC, an existing investment, also contributed ₱540.25 million in additional earnings, most of which came from the reversal of accrued costs and tax provision following the settlement of the dispute with Transfield, the turnkey contractor of LHC's Bakun Plant. The incremental contributions mentioned above were offset by the effects of the weakening currency leading to non- recurring forex losses on some other investees. Both SNAP-Magat and SNAP-Benguet were impacted by the weaker Peso, which resulted to a huge swing from unrealized forex gains for the two companies in 2007 to unrealized forex losses in 2008. Notwithstanding the effects of the exchange rate fluctuations on its bottom line, SNAP-Benguet managed to contribute in operating terms following the turnover of the Ambuklao-Binga plants in July 2008.

The Company's EBITDA is lower by 3.1% year-on-year. The positive effects brought about by the income contribution of the Company's new acquisitions as well as its prudent spending failed to translate into a higher EBITDA due to non-recurring forex losses from the effects of a weakened Peso.

The decrease in the current and other financial ratios was a consequence of improved utilization of capital. This is apparent in the increase in the investments made by the Company during the year versus investments made as of year-end 2007. This is consistent with the Company's long-term plan of improving shareholder value by deploying capital into high yielding investments.

The Company continues to evaluate the investment viability of the remaining power generation assets that the PSALM intends to auction off.

The financial figures presented are in compliance with the requirements/comments made by the SEC's Corporation Finance Department in its letter to AP dated February 3, 2009 and which letter was replied to by AP on February 18, 2009.

To address the SEC's comments on the completeness of the *Segment Reporting Disclosure* on the December 2007 financial statements, *Note 25* in the accompanying audited financial statements as of December. 31, 2008 has endeavored to disclose the basis of inter-segment revenues. As disclosed in the notes to the financial statements, inter-segment revenues, are in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arms length transaction basis. The Company has not allocated or transferred revenues or expenses among its segments.

On the disclosure relating to *Business Combination, Note 7* on the accompanying audited financial statements as of December 31, 2008, the Company has disclosed the profit or loss on companies acquired in 2007 from date of acquisition that is included in the Company's profit or loss for the period. On the accompanying audited financial statements, the Company has disclosed that from the date of acquisition in April 2007 to December 31, 2007 CPPC contributed ₱162.6 million to the net income of the Group. Another acquisition in 2007, EAUC contributed ₱61.6 million STEAG Power, which was acquired in the last quarter of 2007 contributed ₱94.8 million.

In the December 31, 2007 financial statements of the Company, *Note 29* referred to a DLPC refund obligation as a result of an adverse decision rendered by the Supreme Court. The amounts were disclosed in DLPC's financial statements as immaterial. The estimated amount due for refund to DLPC's customers is ₱4.08 million, which is disclosed under *Note 31 Other Matters* on the accompanying audited financial statements for the year ending December 31, 2008.

Financial Results of Operations

The Company's net income for 2008 grew by 3.5% to ₱4.42 billion from ₱4.28 billion for the same period last year. This translates to an earnings per share of ₱0.59 for the year ending December 31, 2008 versus an earnings per share of ₱0.66 ending December 31, 2007. Earnings per share fell by 10.6% dueto the higher number of outstanding shares as of year-end 2008 compared to year-end 2007.

The Distribution Companies brought in an income contribution to equity holders of parent of of ₱1.48 billion, which was lower by 2.8% from last year's ₱1.52 billion. The drop in income contribution to equity holders of the parent is due to higher operating costs of the larger distribution utilities which outpaced any increases brought in by the growth on sales. The Distribution Companies' kilowatt-hour electricity sales for the period grew by 12.6% year-on-year, from 2,789.7 GWh to 3,142 GWh. The growth mostly came from the contributions of the 2007 acquisitions and the expansion of SEZ's industrial segment mainly due to the operation of the Hanjin shipyard in SBFZ.

The power generation business shored in a net income contribution to equity holders of the parent of ₱2.78 billion, recording a 6.4% year-on-year growth from last year's ₱2.61 billion. The growth is attributed to the incremental earnings contributions from the 2007 acquisitions, with a major contribution coming from the 232 MW STEAG Power coal plant.

Total power sold by the Generation Companies for the period recorded a 69.8% year-on-year expansion, from 1,018 GwH to 1,728 GwH. As of 2008, AP's power generation group had an attributable capacity of 578 MW, an 18% year-on-year increase from 2007. The increase was due to the turnover of the 175 MW Ambuklao-Binga hydropower plants in July 2008. Moreover, improved capacity factors of the hydroelectric plants due to higher rate of rainfall also led to the improvement in the power generation for the period.

Material Changes in Line Items of AP's Income Statement

Consolidated net income attributable to equity holders grew by ₱ 172.97 million or 4.2%. Below is a reconciliation of growth in the consolidated net income:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2007	₱4,160,645
Increase in Operating Revenues	930,989
Increase in Operating Expenses	(1,261,818)
Growth from Share in Equity in Net Earnings of Associates	(19,321)
Increase in Interest Income	276,627
Increase in Interest Expense	(181,034)
Increase in Other Income	387,844
Lower Provision for Income Taxes	15,949
Decrease in Minority Interests	23,732
Total Growth	172,968
Consolidated Net Income Attributable to Equity Holders of the Parent for 2008	**₱4,333,613**

Total consolidated revenue grew by 8.2% versus the same period last year. The distribution subsidiaries' consolidated revenues increased by ₱430.19 million, a 4.9% increase for the period. The combined revenues of the Enerzone companies - recent acquisitions MEZ and BEZ as well as SEZ – as a group grew by 35.8%.

On the other hand, the consolidated revenues of the power generation business recorded a strong growth of 19.4% or ₱485.9 million. As in the year 2007, CPPC's contribution to 2008 consolidated revenue is the sole reason for the increase in this segment's increased revenue. The increase in CPPC's revenue contribution is attributed to its full year contribution compared to only seven months revenue contribution for the whole year 2007. CPPC's revenue contribution for 2008 also rose as against 2007 level due to the higher cost of fuel which is passed on as part of its tariffs.

The 13.5% or ₱1.26 billion increase in operating expenses was primarily due to the higher cost of CPPC's generated power. The higher cost of power purchased by SEZ, MEZ and BEZ also added to the increase.

Share in net earnings of associates came in almost flat for the full year 2008 at ₱2.79 billion versus ₱2.80 billion in 2007. The ₱1.09 billion income contribution of STEAG Power cushioned the impact of the decrease in MORE's consolidated net income as a result of the decreased contribution of its subsidiaries, SNAP-Magat and SNAP-Benguet. Both SNAP-Magat and SNAP-Benguet were impacted by the weaker Peso, which resulted to a huge swing from unrealized forex gains for the two companies in 2007 to unrealized forex losses in 2008. Notwithstanding the effects of the exchange rate fluctuations on its bottom line, SNAP-Benguet managed to contribute in recurring operating terms following the turnover of the Ambuklao-Binga plants in July 2008. EAUC, another recent acquisition, made a full year contribution of ₱112.19 million.

Interest income increased by 83.6%. The increase in interest income was due to the income earned on interest on the significant cash balances carried by parent through most of the year compared to 2007 where interest income from the IPO proceeds came in for only half of the year.

Interest expense also increased by 91.7% due to the full year effect of a short-term loan versus only two months of interest expense on this loan for 2007.

Other Income increased by ₱387.84 million due to the unrealized forex gains from the AP parent's dollar denominated cash balances and the lower unrealized forex losses in AP's subsidiary PHC.

As a result of the foregoing, income before income tax increased by ₱133.29 million or 2.7% over the same period a year ago. Provision for taxes decreased by 2.5% to ₱618.39 million from a prior period provision of ₱634.33 million.

Changes in AP's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2007 levels, consolidated assets increased by 30.7%, from ₱36.18 billion in December 2007 to ₱47.27 billion in December 2008, due to the following:

a. *Cash & Cash Equivalents* were at ₱14.92 billion, up by 12.3% from year-end 2007 level of ₱13.29 billion. This was due to additional cash brought in by short term loans of ₱949 million and the proceeds from the fixed rate notes offering of the Company which amounted to ₱3.89 billion. The increase in cash brought about by the capital-raising activities mentioned above were expended for additional investments totaling ₱3.78 billion as well as for dividend payments in the first quarter of the year amounting to ₱1.32 billion. The rest of the cash deployment was made for capital expenditures during the year. Cash also increased due to dividends of ₱1.93 billion from associates.

b. *Trade & Other Receivables* increased by 19.9%, from ₱1.66 billion to ₱1.99 billion due to dividends receivable from an associate as well as interest-bearing advances made to related parties.

c. *Materials and Supplies* decreased by 11.4% due to the purchase of materials and supplies before year-end 2007 for purposes of conducting programmed schedule of maintenance and use in capex projects in 2008.

d. *Other Current Assets* increased by 59.1%, to ₱501.15 million from ₱314.89 million due to input VAT arising from construction in progress as well as higher taxes withheld.

e. *Property, Plant and Equipment* increased by 52.6% from ₱4.10 billion (as restated) in 2007 to ₱6.26 billion mainly due to the consolidation of the plant and equipment of Hedcor Sibulan, which is currently undertaking the construction of a 42.5 MW hydropower project in Davao del Sur, into PHC.

f. *Intangible Assets-Service Concession Rights* increased by ₱192.00 million or 29.0% primarily due to new capital expenditures by SEZ and MEZ which were booked as intangible assets following their adoption of IFRIC 12.

g. *Investments in and Advances to Associates* increased by 45.6% or a total of ₱6.65 billion due to additional or new investments in associates with the significant investments/advances as follows:

I. ₱3.39 billion for additional equity in and advances to MORE, which was in turn invested into the acquisition of the Ambuklao-Binga hydropower complex;

II. ₱278.89 million in equity into RP Energy;

III. ₱1.47 billion in investments/advances of subsidiary Abovant into CEDC, the project company for the 3X82 MW coal plant in Toledo City, Cebu.

h. Decrease of 58.4% in *Available for Sale Investments* deemed to have decreased in value.

i. *Decrease in Pension Assets* by 66.2% resulting from the decreased contributions on retirement fund.

j. *Deferred Tax Assets* increased by 9.7% primarily due to the recording of deferred tax asset of subsidiary PHC on dollar-denominated advances from AP parent and some incremental deferred tax asset increase.

k. *Other Noncurrent Assets* increased by 20.2%, representing mainly the unamortized portion of remittances made by SEZ on various lease agreements with SBMA.

Liabilities

Consolidated liabilities increased to a total of ₱ 16.58 billion, an 88.1% increase over year-end 2007 level. The following were the reasons for the increase:

a) *Bank Loans* increased by 43.5% or ₱1.45 billion due to the availment of the Company's subsidiaries of their respective credit lines for their working capital requirements as well as due to the increase in dollar-denominated debt as a result of the weakening of the Peso.

b) *Trade and Other Payables* increased by 16.8% due to advances payable by subsidiary Abovant to shareholders to fund infusions into CEDC.

c) *Income Tax Payable* was lower by 27.2% due to lower income tax provision recorded during the period under review.

d) *Long-term Debt* increased by 678.4% or by ₱5.68 billion versus year-end 2007 level. This is due to a ₱3.89 billion in fixed rate notes facility availed by the Company in December 2008, Hedcor Sibulan's availment of ₱1.72 billion long-term debt to finance the construction of its 42.5 MW hydropower project and SEZ's refinancing of its long-term debt.

e) An increase in *Customer's Deposit* of 14.4 % or ₱197.16 million was mainly due to new connections in the franchise areas of CLPC, DLPC and SEZ.

f) *Payable to Preferred Shareholder of a Subsidiary* went down expectedly by 7.2% as annual payments were timely made to preferred shareholders.

g) *Pension Liability* decreased by 5.9% as a result of lower pension obligations of AP parent and PHC.

h) *Deferred Income Tax Liability* increased by 52.1% due to unrealized forex gains on cash and dollar advances to a related party.

Equity

Equity attributable to equity holders of the parent increased by 12.8% from ₱26.74 billion (as restated) as of December 2007 to ₱30.16 billion as of December 2008. This was mainly due to consolidated net income of ₱4.33 billion, an upward adjustment in share in cumulative translation adjustments of associates of ₱557.55 million and after a cash dividend payment of ₱1.33 billion in the first quarter of 2008.

The Company declared dividends of ₱0.18 per share to all stockholders as of record date February 21, 2008. This was paid on March 3, 2008.

Material Changes in Liquidity and Cash Reserves of AP

As of December 31, 2008, the AP Group's cash reserves posted a balance of ₱14.92 billion after major investing and financing activities. The excess cash will be used to fund its programmed capital expenditures and to finance planned asset acquisitions for the remainder of the year.

Net cash from operating activities was only ₱1.89 billion this year compared to the net cash inflow of ₱4.00 billion for the same period last year. The seemingly lower cash from operations in 2008 versus 2007 is actually due to the inflow in 2007 of payment from AEV of its advances from AP. Cash from operations in 2008 was mostly from cashflows from higher income before income tax in 2008.

Net cash used in investing activities was ₱5.95 billion compared to ₱8.70 billion for the same period last year. Out of the amounts used, ₱3.78 billion is accounted for by additional or new investments, acquisitions of or capital expenditures for property, plant and equipment of ₱2.62 billion and payments for advances to associates of ₱1.69 billion. These outflows were met partially through interest received in the amount of ₱595 million, dividends received from associates in the amount of ₱1.93 billion and collections of advances from affiliates.

Net cash from financing activities for the year was ₱5.28 billion, which was mainly the net result of inflows of long-term debt in the amount of ₱5.71 billion, comprised of the ₱3.89 billion proceeds of the fixed rate notes offer and ₱1.7 billion Hedcor Sibulan loans. Short term loans of ₱949 million were availed of by subsidiaries to fund working capital requirements. There was also cash outflows for the ₱1.32 billion dividend payout in the first quarter of 2008.

The Company finished the year with net cash inflows of ₱1.17 billion. The cash and cash equivalents of ₱14.92 billion for the period ending December 31, 2008 was 12.3% higher than the cash balance of ₱13.29 billion in December 31, 2007. This is consistent with management's plan of raising capital and deploying cash raised to improve its generation and distribution facilities, acquire existing power facilities and develop Greenfield projects.

Financial Ratios

Current ratio decreased by 0.33, from 2.52x as of December 2007 to 2.19x in December 2008. This was due to the increase in current liabilities as a result of higher bank loans incurred in 2008 to fund working capital requirements and the weaker peso. Current liabilities also went up due to higher trade and other payables. The cash raised from capital raising activities of the Company in 2007 and 2008 was deployed into investments made by the Company during the year. This is consistent with the Company's long-term plan of improving shareholder value by deploying capital into high yielding investments.

Debt-to-equity ratio increased from 0.32 as of December 31, 2007 versus 0.54 as of December 31, 2008 as AP raised debt to fund its various investing activities.

Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties, which may have Material Impact on Registrant

Notwithstanding external and uncontrollable economic and business factors that affect its businesses, AP believes that it is in a good position to benefit from the opportunities that may arise in the current year. Its sound financial condition, coupled with a number of industry and company specific developments, should bode well for AP and its investee companies. These developments are as follows:

Power Generation

AP ended the year 2008 with an attributable generation capacity of 578 MW, an 18.0% increase from end 2007 level. This capacity expansion was brought about by the turnover of the 175 MW Ambuklao-Binga hydroelectric plants in July 2008. This is expected to further increase by 80.0% as the Tiwi-Makban geothermal plants are turned over in 2009.

- On November 28, 2007, 50.0% owned SNAP-Benguet submitted the highest bid for the 175 MW Ambuklao-Binga hydroelectric power complex located in Benguet. The price offered amounted to US$325 million.

  Only the 100 MW Binga hydroelectric plant in Itogon, Benguet is operational with an estimated annual generation capacity of 400 GWh. Plans for rehabilitating the plant are being evaluated, which involve the increase in the plant's generation capacity to 120 MW.

  The 75 MW Ambuklao hydro plant located in Bokod, Benguet ceased operations since the mid-90s after the facility was damaged by an earthquake. Rehabilitation and expansion works commenced in

July 2008. After full completion, which is estimated by November 2010, the plant's generation capacity is expected to increase to 105 MW.

- On July 30, 2008, 100% owned APRI submitted the highest bid to the PSALM for the Tiwi-MakBan geothermal facilities. Total generation capacity based on steam availability is estimated at 462 MW. The price offered amounted to approximately US$447 million.

  The Asset Purchase Agreement between PSALM and APRI was signed and became effective on August 26, 2008. Under PSALM bidding rules, the closing date for the acquisition of Tiwi-Makban shall be 60-270 days from effectivity date, at which time PSALM shall turn over the Tiwi-MakBan assets and contracts to APRI. Turnover date is expected to take place on May 25, 2009.

AP, on its own or with strategic partners, plans to participate in the upcoming bids for the privatization of the government's power assets.

NPC, through PSALM, intends to reach its privatization level to at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas by end 2009.

In particular, the Company is considering participating in the bidding for the 112.5 MW Tongonan geothermal plant in Leyte province and the 192 MW Palinpinon geothermal plant in Negros Oriental.

AP also intends to participate in PSALM's public auction for the IPP administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators. AP likewise submitted letters of interest to PSALM for the bidding of the 100 MW Power Barge 117, 100 MW Power Barge 118 and 55 MW Naga Land Based Gas Turbine Power Plant.

AP is also involved in Greenfield projects – the Sibulan hydropower project in Davao and the Toledo coal-fired plant in Cebu.

- On June 26, 2007, AP's 100%-owned subsidiary, Hedcor Sibulan began construction work on the 42.5 MW Run-of-river hydropower project in Barangay Sibulan, Sta. Cruz, Davao del Sur. The project entails the construction of two cascading hydropower generating facilities tapping the Sibulan and Baroring Rivers. These facilities can generate an estimated 212 million kilowatt-hours of clean and emissions-free energy annually. Construction is expected to be completed by end of 2009.

  Hedcor Sibulan is part of the consortium that entered into a Power Supply Agreement (PSA) that involves the supply of 400,000,000 kWh per year to DLPC. The term of the PSA is from March 7, 2007 to the last day of the 12th year from August 1, 2009. The term may be adjusted, extended, or terminated in accordance with the PSA. The bid price for the contracted energy is ₱4.0856 per kWh (adjusted for inflation).

  The Sibulan project, which is estimated to displace over 95,000 tons of CO_2 equivalent annually, is registered under the United Nations Framework Convention on Climate Change as a Clean Development Mechanism. This registration will allow Hedcor Sibulan to sell carbon credits in the worldwide market up to 2012. Based on current prices, Hedcor Sibulan is estimated to generate roughly $2 million in additional revenues.

- In August 2007, AP, together with Vivant Energy Corporation of the Garcia Group, signed a Memorandum of Agreement with Metrobank Group's Global Power and Formosa Heavy Industries for the construction and operation of a 3x82 MW coal-fired power plant in Toledo City, Cebu. In 2008 the consortium incorporated CEDC as the project company of the 3x82 MW coal plant. Completion of the first unit is expected by first quarter of 2010, while the first and third units by the second half of 2010. AP will have an effective participation of 26.0% in the project.

Other Greenfield projects in the pipeline are the Tamugan hydropower project in Davao and the coal-fired plant in the SBFZ.

- 100% owned Hedcor Tamugan plans to build two distinct run-of-river hydroelectric plants with combined capacity of 27.5 MW hydropower plant in Davao City. The project's commencement has been put on hold due to an unresolved issue with the Davao City Water District on the water rights over the Tamugan river.

  Hedcor Tamugan, together with Hedcor Sibulan, is part of the consortium that entered into a PSA with DLPC for the supply of 400,000,000 kWh per year to DLPC.

- The construction of the 300 MW coal plant in the SBFZ was deferred pending further review of the power demand in the Luzon Grid. AP and its partner, Taiwan Cogeneration International Corporation, will review again the Subic coal project in the middle of the year and decide whether or not to proceed with the project.

Power Sector (Distribution)

The ERC had issued its final determination on CLPC's application for approval of its annual revenue requirement and performance incentive scheme under the PBR. This covers the second regulatory four-year period, which commenced on April 1, 2009.

The ERC had conducted public hearings on March 3 and 4, 2009 on CLPC's resulting distribution rate structure. The ERC decision is expected on or before the end of April 2009. CLPC expects to implement the new rate structure on May 1, 2009, which is one month later than the scheduled start of the second regulatory period. Any resulting under- or over-recovery in revenue will be reflected in the correction factor at the next rate application to be implemented in April 2010.

VECO and DLPC entered their respective reset periods in end 2008, and are expected to enter the four-year regulatory period 18-24 months thereafter. SFELAPCO and SEZ are part of the fourth batch of private utilities to enter PBR, with new rates to be effective by 2011.

Except for the developments disclosed in some other portion of this Prospectus and the audited financial statements, there are, as of December 31, 2008 no known trends, events or uncertainties that have had or are reasonably expected to have a material impact on net sales, revenues, income from continuing operations or on relationship between costs and revenues. There were also no events that would trigger substantial or contingent financial obligations or cause any default or acceleration of an existing obligation.

Key Performance Indicators for 2007 (as restated) and 2006 (as restated) are as follows:

Key Performance Indicators	2007 As restated	2006 As restated
Amounts in thousands ₱s, except for financial ratios		
EQUITY IN NET EARNINGS OF ASSOCIATES	**2,803,833**	**1,075,844**
EBITDA	**5,584,406**	**2,936,982**
CASH FLOWS GENERATED:		
Net cash flows from operating activities	3,998,435	825,509
Net cash flows from (used in) investing activities	(8,694,912)	931,005
Net cash flows from (used in) financing activities	16,705,532	(1,239,883)
Net Increase in Cash & Cash Equivalents	**12,009.055**	**516,631**
Cash & Cash Equivalents, Beginning	1,494,272	985,188
Cash & Cash Equivalents, End	**13,287,811**	**1,494,272**
CURRENT RATIO	**2.52**	**3.15**
DEBT TO EQUITY RATIO	**0.32**	**0.46**

Above key performance indicators exceeded management expectations.

Earnings contributions of power assets acquired during the year accounted for the increase in equity in net earnings of associates. Income contributions generated by MORE, STEAG Power and EAUC offset the decline in LHC's earnings. The decline in LHC's earnings was foreseen as capacity fee rates were already known to be lower during the year in review. LHC follows a fee schedule that is stipulated in its contract with the NPC. The other reason for the decline in LHC's net income was the strengthening of the peso against the US dollar.

The new additions and more importantly the strong showing of AP's subsidiaries resulted to the 90.1% year-on-year growth in EBITDA. Strong revenue growth due to increased volume sales, coupled with improved operating efficiencies, led to robust operating margins. The fresh earnings contribution of recently acquired CPPC was also another source of growth.

With controls in place, AP managed to keep and even raise the levels of cash it accumulated from the capital raising activity it set out during the year. Improved utilization of capital should enable AP to enhance shareholder value as it explores and takes advantage of growth opportunities in its businesses.

The government, through NPC and the PSALM, is expected to continue to auction off power generation assets. AP is currently evaluating the investment viability of these assets and intends to participate in the upcoming bidding process.

Year Ended December 31, 2007 (as restated) compared to year ended December 31, 2006 (as restated)

Results of Operations

AP's consolidated net income for 2007 was ₱4.28 billion for the year, a hefty 125.9% increase over the 2006 net income of ₱1.89 billion. Earnings per share improved to ₱0.66 from ₱0.37 for the comparative period in review.

The power generation business's contribution to net income to equity holders of parent was ₱2.61 billion, recording an increase of 209.9% from last year's ₱842.53 million. The increase was mainly due to the increment in AP's attributable generating capacity by 291% as a result of the acquisition of 50.0% of the 360 MW Magat hydropower plant, 60% of the 70 MW thermal power plant owned and operated by CPPC, 50% of the 50 MW thermal power plant owned and operated by EAUC and 34.0% of the 232 MW coal-fired plant owned and operated by STEAG Power. The four facilities started contributing to AP's results in the second half of 2007.

The power distribution business, as a whole, contributed ₱1.52 billion to net income to equity holders of the parent, up 52.0% year-on-year from ₱999.85 million. This was at the back of electricity sales growth of 11.0% year-on-year by all subsidiaries and associates, from 2,507 GWh in 2006 to 2,790 GWh in 2007.The increase in the income contribution of the power distribution business was also due to an improvement in the gross profit per kWh.

Material Changes in Line Items of AP's Income Statement

Consolidated net income attributable to equity holders of the Parent increased by 122.7% due to the following:

a. *Operating revenues net of operating expenses* at year-end 2007 registered at ₱1.98 billion, up by 54.5% or an increase of ₱699 million over the gross profit the previous year. Consolidated revenues grew by 30.0% to ₱11.31 billion while operating expenses were up by 26.1% to ₱9.33 billion from ₱7.40 billion. Fresh contribution from CPPC accounted for 52.0% of the increase in gross profit.

   The power distribution subsidiaries finished the year with an increase of 11.1% in operating revenues, mainly due to higher kWh sold that grew by 26.0% year-on-year. The power generation group's consolidated revenues, on the other hand, recorded a notable 244% year-on-year increase. CPPC accounted for 66.7% of the total increase in consolidated revenues.

   Operating expenses were composed mainly of generated power and purchased power cost. The generated power cost component increased by 990.1% during the year due to the consolidation of CPPC. Purchased power cost also increased by 10.9%, primarily due to higher amount of electricity purchased as kWh sold by the distribution group increased.

b. *Share in net earnings of associates* increased by 160.6% principally due to the income contribution of the newly acquired associates. MORE, STEAG Power and EAUC contributed ₱1.62 billion, ₱94 million and ₱62 million, respectively. LHC posted a decline in earnings contribution as revenues were reduced due to the reduction in contracted capacity fee rates and the strengthening of the Philippine Peso versus the US dollar.

c. *Interest income* increased by 524.4% due to higher placements coming from IPO proceeds of the Company. Interest expense dropped by 11.3% due to a decline in interest rates. As of December 31, 2007, 80.0% of the Group's long-term debt had floating interest rates ranging from 6.21% to 6.89%, and 20.0% of the debts had fixed rates ranging from 8.78% to 9.50%. As of December 31, 2006, 56.0% of the Group's long-term debt had floating interest rates ranging from 7.48% to 9.23%, and 44.0% had fixed rates ranging from 8.78% to 11.20%.

d. *Other Income net of other expenses* decreased by ₱119.36 million or 110.3% mainly due to higher foreign exchange loss recorded at the Company and PHC.

As a result of the foregoing, income before income tax increased by 113.7% year-on-year. Correspondingly, provision for income tax increased by 57.0% as a result of higher taxable income reported by the Company.

Material Changes in AP's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2006 levels, the Company's consolidated assets grew by 195%, from ₱12.28 billion in December 2006 to ₱36.18 billion in December 2007, due to the following:

a. *Cash & Cash Equivalents* were at ₱13.29 billion, up by 789.4% from year-end 2006 level of ₱1.49 billion. This is mainly attributed to the higher cash balance at the parent company level. The increase was due to excess funds from the capital raised during the IPO.

b. *Trade & Other Receivables* decreased by 36.0%, from ₱2.60 billion to ₱1.66 billion. This is mainly due to the payment by AEV of its advances from the Company.

c. *Materials and Supplies* were higher by 72.5%, from ₱217.12 million to ₱374.63 million. Current balance includes the ₱88 million materials and supplies of CPPC. The increase was also due to DLPC's inventory build up for use in future capex projects.

d. *Other Current Assets* increased by 140.9% to ₱314.89 million from ₱184.20 million, 44.0% of which came from input VAT of newly acquired CPPC. Remaining amounts also relate to net input VAT of PHC.

e. *Property, Plant and Equipment-net* increased by 32.9%, ₱4.10 billion versus ₱3.09 billion, mainly due to the consolidation of the plant and equipment of newly acquired CPPC, MEZ and BEZ, the additional ownership in SEZ and the ongoing construction of the Hedcor Sibulan project.

f. *Investments in and Advances to Associates* increased by 272.4%, from ₱3.92 billion in December 2006 to ₱14.60 billion in December 2007. Acquisitions made during the year in review accounted for the increase. Moreover, the carrying values of existing equitized investments also increased as AP recognized its share in the earnings of associates amounting to ₱2.80 billion, net of the ₱581.79 million cash dividends received.

g. AP recorded an increase in *Goodwill* of 352.3%, from ₱220.23 million to ₱996.00 million. This was mainly goodwill of newly acquired utilities BEZ and MEZ.

h. *Deferred Income Tax Assets* increased by ₱50.81 million, attributable mainly to deferred tax on unrealized foreign exchange loss of the subsidiaries' advances to related party.

i. *Other Noncurrent Assets* were up by 105.1%, from ₱33.95 million to ₱69.64 million. This was principally due to SEZ's prepaid rent to SBMA.

Liabilities

Consolidated bank loans and long-term debts increased by 249.0%, or ₱2.98 billion, compared to 2006 year-end level. The significant increase is mainly due to the ₱3.31 billion short-term bank loan of the Company that arose out of the STEAG Power acquisition.

Trade and other payables were up 132.1%, ₱2.69 billion versus ₱1.16 billion, mainly attributable to subsidiaries' advances to the Company.

Customers' deposits grew by 21.7% due to the increase in the power distribution group's customer base and the recording of customers' deposits of new acquisitions MEZ and BEZ.

Income tax payable was up 85.2% principally due to higher income tax provision recorded during the period under review.

Equity

Equity attributable to equity holders of the Company grew by 221.8%, from ₱8.31 billion as of December 2006 to ₱26.74 billion as of December 2007, largely due to the issuance of new shares during the IPO. This brought in additional equity of ₱11.36 billion. AP also issued new shares to existing shareholder, AEV, before the IPO, resulting to additional capital contributions of ₱4.07 billion.

Retained earnings grew by 125.5% to ₱7.48 billion against ₱3.32 billion in 2006. This was brought about mainly by the ₱4.28 billion net income recorded for the year 2007.

The ₱681.88 million decline in share in cumulative translation adjustments of associates was due to the further appreciation of the Philippine peso against the US dollar to ₱41.28 as of December 31, 2007 from ₱49.05 as of December 31, 2006. The power generating associates, which adopt the US dollar functional currency financial reporting, recorded foreign exchange adjustments during the year. This resulted out of the translation of their financial statements to Philippine peso currency reporting format. These foreign exchange adjustments are booked under Share in Cumulative Translation Adjustments of Associates' account.

A reduction in acquisition of minority interests of ₱107.16 million represents excess of purchase price over carrying value of SEZ as a result of the acquisition by the Company of the minority shares of AEV, SFELAPCO and Team Philippines.

Financial Ratios

Current assets increased by ₱11.20 billion, largely due to higher cash and cash equivalents arising out of the capital raising activities of AP. This more than offset the ₱4.81 billion increase in current liabilities resulting from additional debt incurred by the Company in its acquisition of EAUC and STEAG Power.

However, the resultant current ratio is lower by 0.64, from 3.15:1 as of year-end 2006 to 2.52:1 as of December 2007. Debt-to-equity ratio on the other hand, improved in comparison to last year’s figures, from 0.46:1 and 0.32:1 as of December 31, 2006 and December 2007, respectively. The improved performance was due also to the additional capital raised by AP.

Material Changes in Liquidity and Cash Reserves of AP

The Company managed to carry out its investing and capital raising initiatives successfully during the year that it ended up very liquid. The cash it accumulated will be used to fund its programmed capital expenditures and to finance planned asset acquisitions.

Net cash from operating activities increased by 384.4%, from ₱825.50 million as of December 31, 2006 to ₱4.00 billion in 2007. The increase can be attributed to higher earnings contributions by subsidiaries and the collection of advances.

Net cash used in investing activities at year-end of 2007 stood at ₱8.69 billion versus ₱931.00 million cash provided in the comparative period in 2006. The net usage was mainly due to the new investments in MORE, STEAG Power and EAUC.

Net cash from financing activities for the period in review was at ₱16.71 billion as opposed to net cash usage for financing activities of ₱1.24 billion in 2006. The ₱17.94 billion increase is primarily a capital infusion by the Company during the second quarter of 2007 as well as from the excess of the IPO proceeds.

With well managed cash, improved operating efficiencies and controls, the Group ended the year 2007 with net cash inflows exceeding the cash outflows resulting to an increase in cash and cash equivalents of ₱11.80 billion, from ₱1.49 billion in 2006 to ₱13.29 billion in the year under review.

MANAGEMENT

BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The overall management and supervision of the Company is undertaken by its Board. The Company's executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review. The By-laws of the Company provides that the Board shall consist of nine members, two of whom[4] are independent directors.

The table below sets forth the members of the Company's Board and its executive officers as of the date of this Prospectus.

JON RAMON ABOITIZ Chairman	Mr. Aboitiz, Filipino, 60 years old, has served as Chairman of AP since 1998. He has been serving in various capacities in DLPC since 1972: Director from 1972 to 1985, Chairman of the Board from 1986 to 1987, President and Chairman of the Board from 1988 to 2001, President and Chief Executive Officer in 2002 and Chairman and Chief Executive Officer from 2003 to present. He has been a Director of CLPC since 1978 up to the present. He also served in CLPC in the following capacities: Chairman of the Board from 1980 to 1987, President and Chairman of the Board from 1988 to 1990, Chairman of the Board and Chief Executive Officer from 1991 to 1997, Chairman of the Board from 1998 to 1999. He was also Director of SFELAPCO from 2002 to 2008. He is also currently: Chairman of the Board of AEV, ACO, AESI, PHC, Aboitiz Jebsen Bulk Transport Corporation; Vice Chairman of the Board of Directors of UBP, VECO and City Savings Bank ("CSB"); Director of Cotabato Ice Plant, Inc. ("CIPI"), SPPC, Hijos De F. Escaño, Inc. and Pilmico Foods Corporation ("Pilmico"); Chairman of the Board of Trustees of Aboitiz Foundation, Inc. and Trustee of the Ramon Aboitiz Foundation, Inc. He holds a degree in Commerce from the University of Santa Clara in California, U.S.A.
ERRAMON I. ABOITIZ President & Chief Executive Officer	Mr. Aboitiz, Filipino, 52 years old, has been a Director and the President/Chief Executive Officer of AP since 1998. He has been with DLPC serving as Director as well as in the following capacities since 1983: Treasurer from 1983 to 1987, Executive Vice President/Treasurer from 1988 to 1989, and Executive Vice President from 1990 to present. He has been a Director of SFELAPCO since 2002 and its Chairman of the Board from 2003 to present. He has been with CLPC serving as Director as well as in the following capacities since 1980 up to the present: Executive Vice President/Treasurer from 1988 to 1990, President and Chief Operating Officer from 1991 to 1999, Chairman of the Board from 2000 to 2005. He is also currently: the President and Chief Executive Officer of AEV and ACO; Chairman of the Board of Directors of SEZ, BEZ, MEZ, SNAP-Magat, SNAP-Benguet, EAUC, CSB and Pilmico Animal Nutrition Corporation ("PANC"); President/Chief Executive Officer of PHC; Chairman and Chief Executive Officer of Hedcor, Inc., Director of APRI, Aboitiz Land, Inc., UBP, VECO, SPPC, AESI, and Abovant ; and President and Trustee of Aboitiz Foundation, Inc. He received a Bachelor of Science degree in Business Administration, major in Accounting and Finance from Gonzaga University, Spokane, Washington, U.S.A.
ERNESTO R. ABOITIZ Vice Chairman	Mr. Aboitiz, Filipino, 76 years old, has been a Director of AP since 1998. Between 1987 and 1991 he served as Chairman and President of NPC. Between 1972 and 1975 he acted as Chairman and General Manager of the Mindanao Development Authority. Between 1970 and 1987 he was President of DLPC and CLPC. He is a retired consultant of DLPC and ACO. He holds a degree in Electrical Engineer from the University of Santa Clara in California, U.S.A.
MIKEL A. ABOITIZ Director	Mr. Aboitiz, Filipino, 54 years old, has been a Director of AP since 1998. He has also been a Director of CLPC since 1980 and DLPC since 1993. He is also: Senior Vice President and Chief Information Officer of AEV and was recently appointed as Chief Strategy Officer of AEV in February 2009; Senior Vice President and Chief Information Officer of ACO; Director and

[4] Currently, there are only eight members of the Board.

	President/Chief Executive Officer of CSB; Director of Aboitiz Land, Inc., FBMA Marine, Inc., Pilmico, CLPC, Cebu Praedia Development Corporation, Aboitiz Construction Group, Inc. ("ACGI")and DLPC. He holds a degree in Bachelor of Science major in Business Administration from Gonzaga University, Spokane, U.S.A.
JUAN ANTONIO E. BERNAD Director	Mr. Bernad, Filipino, 52 years old, has been an AP Director since 1998. He was AP Executive Vice President/Chief Financial Officer/Treasurer from 1998 to 2003 and has been AP's Executive Vice President for Regulatory Affairs/Chief Financial Officer from 2004 to 2007. He was Senior Vice President – Electricity Regulatory Affairs of AEV since 2004 to May 2007 and mainly as AEV's Senior Vice President effective May 21, 2007. From 1995 to 2004, he was Senior Vice President and Chief Financial Officer of AEV. From 1992 to 1995 he was Vice President/Treasurer of DLPC, and a DLPC Director and its Senior Vice President/Chief Financial Officer from 1996 to 2008. He is now Executive Vice President-Regulatory Affairs of DLPC. He was also Vice President/Treasurer of CLPC between 1992 and 1997 and Senior Vice President/Chief Operating Officer from 1998 to 2008. He is also: Senior Vice President of AEV; Director of CLPC, UBP and CIPI; SVP - Regulatory Compliance Officer of VECO; Chaiman of the Board of Trustees of ACO Retirement Fund and Trustee of Aboitiz Foundation. He has a degree in Economics from the Ateneo de Manila University and a master's degree in Business Administration at The Wharton School, University of Pennsylvania, U.S.A.
ANTONIO R. MORAZA Director	Mr. Moraza, Filipino, 52 years old, has been a Director of AP since 1999. He is the President and CEO of Pilmico and PANC. He is also Chairman of the Board of Directors of APRI, Vice-Chairman of ACGI, Aboitiz Land, Inc., and Propriedad del Norte, Inc. He is likewise a Director of ACO, Terminal Facilities & Services Corporation, UBP, SNAP-Benguet, Cebu Industrial Park Developers, Inc., Cebu Industrial Park Services, Inc., Tsuneishi Heavy Industries (Cebu) Inc. and the Philippine Association of Flour Millers. He is a Director of VECO and a member of the Executive Committee of AEV. From 1982 up to 1992, he was Vice President for Administration and Finance of Metaphil, Inc., an ACO subsidiary engaged in industrial construction. He holds a degree in Business Management from the Ateneo de Manila University and attended the Asian Institute of Management.
JOSE R. FACUNDO Independent Director	Mr. Facundo, Filipino, 70 years old, currently serves as an Adviser and member of Board of Directors of Security Bank Corporation. He is also a member of the Board of Directors of Siemens Philippines, Inc., and an Independent Director of Alaska Milk Corp. Mr. Facundo has an extensive career in banking. He served as a member of the Board of Directors and Executive Committee and as President of BPI Capital Corporation. He was also a member of the Board of Directors and Executive Committee of the Bank of the Philippine Islands (BPI). Prior to BPI's merger with CityTrust Banking Corp. (CityTrust), Mr. Facundo served as President and CEO of CityTrust and was a member of its board and executive committees. He was also a Senior Managing Director of Ayala Corporation and formerly a Senior Officer of Citibank Manila. He also served as member of the Board of Directors of Temic Phil. Inc, and Chairman and member of the Board of Directors of the Philippine Clearing House. He is likewise a member of the Philippine Business for Social Progress, Junior Achievement of the Philippines and the Rotary Club. He holds a degree in B. A. Engineering and a postgraduate degree in Mathematics and Statistics.
ROMEO L. BERNARDO Independent Director	Mr. Bernardo, Filipino, 54 years old, is currently the President of Lazaro Bernardo Tiu and Associates (LBT), a boutique financial advisory firm based in Manila. He is also GlobalSource economist in the Philippines. He also currently does World Bank and Asian Development Bank-funded policy advisory work. He is also Chairman of ALFM Peso, Dollar and Euro Bond Funds, and Philippine Stock Index Fund, the largest mutual fund family in the country. He is likewise a Director of several companies and organizations including Globe Telecom, Bank of the Philippine Islands, NASDAQ-listed PSi Technologies Holdings, Inc., RFM Corporation, Philippine Investment Management, Inc., Philippine Institute for Development Studies (PIDS), Ayala Life Assurance Incorporated/Ayala Plans, Inc. and National Reinsurance Corporation of the Philippines. He previously served as Undersecretary of Finance and as Executive Director of the Asian Development Bank. He was an Advisor of the World Bank and the IMF (Washington D.C.), and served as Deputy Chief of the Philippine Delegation to the GATT (WTO), Geneva. He was formerly President of the Philippine

	Economics Society; Chairman of the Federation of ASEAN Economic Societies and a Faculty Member (Finance) of the University of the Philippines. Mr. Bernardo holds a degree in Bachelor of Science in Business Economics from the University of the Philippines (magna cum laude) and a Masters degree in Development Economics at Williams College (Top of the Class) from Williams College in Williamstown, Massachusetts.
LUIS MIGUEL O. ABOITIZ Senior Vice President – Power Generation Group	Mr. Aboitiz, Filipino, 44 years old, has been AP Director and Vice President for Power Generation from 1998 to April 2007. Between 1990 to 1992, he was Assistant Vice President of DLPC, and Director since 1996. He was also a Director of CLPC from 1998 to 2001. He is also President of SNAP-Magat, SNAP-Benguet and Manila-Oslo Renewable Enterprise, Inc., First Vice President of AEV; Director and Senior Vice President – Business Development of Hedcor; Director and Vice President/Treasurer of PHC;Director of SEZ, APRI, PANC, and Pilmico. He holds a degree in Computer Science and Engineering from Santa Clara University, California, U.S.A. and a masters degree in Business Administration from the University of California at Berkeley, U.S.A.
JAIME JOSE ABOITIZ Executive Vice President – Power Distribution	Mr. Aboitiz, Filipino, 47 years old, has been a member of the AP Executive Committee since 2000 and is AP Director from 2004 to April 2007. Between 2000 and 2005 he served as CLPC Director, Executive Vice President and Chief Operating Officer and since 2006 has been CLPC's President and Chief Operating Officer. He is also President and Chief Executive Officer of SEZ, CLPC; President and Chief Operating Officer of DLPC; President of AESI, MEZ and BEZ. He is the Executive Vice President and Chief Operating Officer of VECO. He holds a degree in Mechanical Engineering from Loyola Marymount University in California and a master's degree in Management from the Asian Institute of Management.
IKER M. ABOITIZ First Vice President/Chief Financial Officer/Corporate Information Officer	Mr. Aboitiz, Filipino, 36 years old, has been AP's First Vice President and Chief Financial Officer since August 29, 2007. He likewise acts as AP's Corporate Information Officer. He is currently a Director and Chief Financial Officer of Abovant; Chief Financial Officer of EAUC and CPPC; Director of WMPC. Mr. Iker Aboitiz has an extensive professional experience in corporate finance within and outside the Aboitiz Group. Prior to his appointment as Chief Financial Officer, he was the Chief Financial Officer of ACGI and a member of the Board of Directors and Chief Financial Officer of FBMA Marine, Inc. He graduated Cum Laude from Boston College with a degree in Bachelor of Science in Business Management major in Finance.
GABRIEL T. MAÑALAC First Vice President/ Treasurer	Mr. Mañalac, Filipino, 52 years old, has been the Treasurer of AP since 2004 and is now its First Vice President/Treasurer. He was Treasurer of DLPC from 1999 to 2001 and DLPC Vice President-Treasurer since 2002. He has been Treasurer of CLPC since 2000. He is also Senior Vice President - Group Treasurer of AEV and First Vice-President - Treasury Services/ Treasurer of ACO. Mr. Mañalac graduated Cum Laude from the De La Salle University with degrees in Bachelor of Science in Finance and Bachelor of Arts in Economics. He obtained his Masters of Business Administration in Banking and Finance from the Asian Institute of Management and was awarded Institute's Scholarship for Merit.
BENJAMIN A. CARIASO, JR. Vice President for Business Development	Mr. Cariaso, Filipino, 53 years old, has been Vice President for Business Development of AP since April 2007. He has also been Executive Vice President and Chief Operating Officer of AESI since 2004 and was Vice President for Business Development from 1998 to 2003. He has been Executive Vice President and Chief Operating Officer of SEZ since 2005. He served as Director of SEZ in 2003 to 2004 and from 2005 to present. He was appointed as Executive Vice President and Chief Operating Officer of MEZ and BEZ effective September 17, 2007. He has been a Director of CSB since October 1, 2007. Prior to his transfer to AEV in 1998, Mr. Cariaso was connected with the transport affiliates of AP, first with Aboitiz Shipping Corporation from 1976 to 1990 and later with Aboitiz Transport System (ATSC) Corporation where he served as Senior Vice President from 1995 to 1998. Mr. Cariaso has a degree in Industrial Engineering from the University of the Philippines and a Master's Degree in Business Management from the same university.
WILFREDO R. BACAREZA, JR. Vice President	Mr. Bacareza, Filipino, 31 years old, has been Vice President of AP since August 19, 2008. He was formerly the President and Chief Executive Officer of the Philippine National Oil Company-Development Management Corporation (PNOC-DMC) from 2006 to 2007 and

	President and Chairman of the Land Equity Assets Development Corporation (LEAD Corp.) and Baclands Properties Corporation from 2003 to 2007. In 2005 he served as legal adviser of the Philippine National Construction Corporation (PNCC) and Metropolitan Waterworks and Sewerage System (MWSS). Mr. Bacareza was also a Government Corporate Attorney II in the Office of the Government Corporate Counsel from 2004 to 2005 and Legal Consultant of National Power Corporation from 2003 to 2004**.** He is a graduate of the Ateneo Law School with a degree of Juris Doctor.
ALVIN S. ARCO Vice President, Regulatory Affairs	Mr. Arco, Filipino, 48 years old, has been Vice President for Regulatory Affairs of AP since April 2007. He was Accounting Manager of AP from 1998 to 1999, Assistant Vice President – Finance from 2000 to 2004 and promoted to Vice President – Finance since 2005. He was Chief Accountant of DLPC in 1997, Accounting Manager from 1998 to 1999, Assistant Vice President – Finance from 2000 to 2004 and Vice President – Finance since 2005. He served as Assistant Vice President – Finance of CLPC between 2002 and 2005 and Vice President – Finance since 2006. He is also Assistant Vice President for Finance of AESI and VP - Regulatory Affairs of DLPC. Mr. Arco is a Certified Public Accountant. He holds a degree in Accountancy from the University San Jose-Recoletos, Cebu City.
ANASTACIO D. CUBOS, JR. Vice President, Special Projects	Mr. Cubos, Filipino, 58 years old, has been Vice President for Special Projects of AP since 1998. Between 1989 and 1997, he was Assistant Vice President – Engineering of DLPC. He was also DLPC Vice President – Engineering from 1998 to 2000 and DLPC Senior Vice President – Special Projects since 2001. He is a Consultant of Hedcor and is a member of the Technical Executive Committee of CLPC. He acts as a consultant to the Republic of Palau for its generation projects. Mr. Cubos' experience in the power industry dates back to 1972 when he joined DLPC as an engineer. He holds a degree in electrical engineering from the Cebu Institute of Technology and a master's degree in Business Administration from the Ateneo de Davao University.
MA. CHONA Y. TIU Vice President and Chief Financial Officer - Distribution	Ms. Tiu, Filipino, 51 years old joined the Aboitiz Group in 1977 as Research Assistant of the Corporate Staff Department of ACO. She rose from the ranks and held various finance positions in different companies within the Aboitiz Group including ACGI and Aboitiz Land, Inc. She joined the AP Group when she was appointed as Vice President – Administration and Chief Finance Officer of AP affiliate, VECO in 2007.
RAUL C. LUCERO Vice President for Engineering - Distribution	Mr. Lucero, Filipino, 41 years old joined the Aboitiz Group in 1990 via DLPC. He became Vice President for Engineering of DLPC in 2000. He was involved in the successful bid by AEV for the management of Subic Bay Metropolitan Authority's distribution system in the Subic Bay Freeport Zone in 2003. Mr. Lucero was promoted to Senior Vice President of DLPC in 2004. In the same year, he was brought into VECO to help transform VECO's engineering group. He was officially transferred to VECO in 2008.
CRISTINA BRIONES- BELORIA Assistant Vice President/ Controller	Ms. Beloria, Filipino, 46 years old, has been Assistant Vice President and Controller of AP since June 10, 2008. She was the Plant Controller of EAUC and CPPC from 2000-2008. She held various consulting engagements in Tokyo Japan from 1999-2000. She also served as Senior Auditor in the E.C. Ortiz and Co., CPA's in Chicago, Illinois USA. Ms. Beloria holds a degree in Bachelor of Science in Commerce, Major in Accounting from the University of San Jose Recoletos. She passed on first sitting the Philippine CPA Licensure Exam and Uniform CPA Licensure Examination given in Chicago, Illinois, USA.
M. CARMELA NARANJILLA Assistant Vice President-Investor Relations	Ms. Naranjilla, Filipino, 37 years old, has been AP's Assistant Vice President for Investor Relations since March 26, 2008. She is also Assistant Vice President for Investor Relations of AEV. Ms. Naranjilla's professional experience in investment analysis and corporate finance includes working with various corporations in different capacities prior to her stint in AP. She was previously a Trader, Associate and Credit Analyst of Capital One Equities Corporation & Multinational Investment Bancorporation from 1992 to 1994 and was formerly an Investment Analyst of ING Barings (Phils), Inc. & Kim Eng Securities (Phils), Inc. from 1994 to 1997. She also served as Investment Officer of Standard Chartered Bank from 1998 to 2000 and went on to serve as Project Analyst of Newgate Management, Inc. from 2000 to August 2002. Immediately prior to her stint with AP, she was connected with San Miguel Corporation as Investor Relations Officer of its Corporate Finance Group and later as Senior

	Project Analyst of its Corporate Planning Group. She holds a degree in Bachelor of Science in Business Economics (Cum Laude) from the University of the Philippines.
SUSAN S. POLICARPIO Assistant Vice President – Government Relations	Ms. Policarpio, Filipino, 52 years old has been AP's Assistant Vice President for Government Relations since February 2009. Prior to her stint in AP, she was Assistant Vice President for Government Relations of ATSC since 2003. She was also Executive Director of Domestic Shipping Association from 2001 to 2003 and Executive Director Honorary Investments and Trade Representative of the Department of Trade and Industry from 1998 to 2001. She is currently a Director of the Port Users Confederation, Inc. and is a member of the Philippine Chamber of Commerce and Industry. She is a graduate of Bachelor of Arts in Communication Arts from St. Paul College.
CLOVIS B. RACHO Assistant Vice President for Procurement and Logistics - Distribution	Mr. Racho, Filipino, 44 years old joined the Aboitiz Group in 1989 as an Assistant Systems Analyst of DLPC, where he subsequently held various positions until his promotion as Department Manager of Technical Services in 2000. He was promoted as Assistant Vice President for Procurement and Logistics of VECO in 2004.
ALADINO BORJA JR. Assistant Vice President for Information Services-Distribution	Mr. Borja, Filipino, 46 years old started his career with the Aboitiz Group when he was hired as Computer Programmer of Davao Computer Services, Inc., an affiliate of DLPC, in 1997. He later joined DLPC in 1990 as Junior Programmer where he rose from the ranks, becoming Head of Information Service Group in 2000. He was later assigned to VECO as Assistant Vice President for Information Service Group in 2004.
M. JASMINE S. OPORTO Corporate Secretary/ Compliance Officer	Ms. Oporto, Filipino, 49 years old, has been the Corporate Secretary of AP since 2007. She is also First Vice President-Legal, Corporate Secretary and Compliance Officer of AEV; the Corporate Secretary of LHC, VECO, Hijos de F. Escaño, SNAP-Magat, SNAP-Benguet, CPPC and APRI. She is also General Counsel and First Vice President for Legal and Corporate Services of ACO since 2004. She is also Vice President for Legal Affairs of DLPC and Trustee of the ACO Retirement Fund. Prior to joining AP, she worked in various capacities with the Hong Kong office of Kelley Drye & Warren, LLP, a New York-based law firm and the Singapore-based consulting firm Albi Consulting Pte. Ltd. A member of both the Philippine and New York bars, she obtained her Bachelor of Laws from the University of the Philippines.
JOSEPH TRILLANA T. GONZALES Assistant Corporate Secretary	Mr. Gonzales, Filipino, 42 years old, has been the Assistant Corporate Secretary of AP since August 29, 2007. He is also Vice President for Legal and Corporate Services of AEV. He was previously Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group in May 2007 as Assistant Vice President of the Corporate and Legal Services of ACO. He is a graduate of Bachelor of Arts in Economics and Bachelor of Laws from the University of the Philippines. He also has a Master of Laws degree from the University of Michigan.

Family Relationships

Mr. Ernesto R. Aboitiz is the father of Mr. Jaime Jose Y. Aboitiz. Mr. Jaime Jose Y. Aboitiz is a first cousin of Luis Miguel Aboitiz. Mr. Ernesto R. Aboitiz is also the uncle of Messrs. Luis Miguel Aboitiz, Jon Ramon Aboitiz, Mikel A. Aboitiz, Erramon I. Aboitiz and Iker M. Aboitiz. Messrs. Jon Ramon Aboitiz and Mikel A. Aboitiz are brothers. Messrs. Erramon I. Aboitiz and Iker M. Aboitiz are brothers as well. Messrs. Jon Ramon Aboitiz and Mikel A. Aboitiz are second cousins of Messrs. Erramon I. Aboitiz, Iker M. Aboitiz, Jaime Jose Y. Aboitiz and Luis Miguel Aboitiz.

Involvement in Certain Legal Proceedings of Directors and Executive Officers

On July 23, 2008, the Metropolitan Trial Court ("MTC") of Makati issued an order finding probable cause to hold the alleged directors/stockholders of Fuller O'Brien Paint Company, Inc. ("Fuller O'Brien"), including Erramon I. Aboitiz, for violation of PD No. 1752 or the Pag-Ibig Fund Law, as amended.

On September 1, 2008, warrants of arrest were issued by the MTC against the accused, including Mr. Aboitiz. Mr. Aboitiz through his counsel filed an Omnibus Motion before the MTC asking for: (i) the

reconsideration of the order dated July 23, 2008 finding probable cause against him; (2) the recall/holding in abeyance of the warrant of arrest; and (3) the conduct of preliminary investigation/ reinvestigation.

The Home Development Mutual Fund ("HDMF") failed to file its comment or opposition to the Omnibus Motion within the period given to it by the MTC. On September 30, 2008 the MTC issued an order granting the Omnibus Motion filed by Mr. Aboitiz. Consequently, the warrant of arrest issued against him was recalled. The Office of the City Prosecutor of Makati was also directed to conduct a preliminary investigation of the case as regards Mr. Aboitiz.

On October 24, 2008 Mr. Aboitiz filed his counter-affidavit with the Office of the City Prosecutor, maintaining that he should be excluded from the charges filed against the directors of Fuller O'Brien on the ground that he was no longer a director of Fuller O'Brien during the period when the alleged violations of the Pag-Ibig Fund have occured. This case is still pending resolution before Office of the City Prosecutor.

Period in Which the Directors and Executive Officers Should Serve

The directors and executive officers should serve for a period of one (1) year.

Terms of Office of a Director

Pursuant to the Company's amended By-laws, the nine (9) directors, who must be stockholders of AP, are elected annually by the stockholders during the annual stockholders' meeting where at least a majority of the outstanding capital stock should be present in person or by proxy. Each director shall serve for a term of one (1) year and until the election and qualification of his successor, unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board of Directors other than by removal or expiration of term may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

Significant Employees

AP considers the contribution of every employee important to the fulfillment of its goals.

CORPORATE GOVERNANCE

AP has a Manual of Corporate Governance (the "Manual") and Code of Ethics and Business Conduct (the "Code") to guide the attainment of its corporate goals and strategies.

AP has in place a performance evaluation system for corporate governance. It also participated, and intends to participate in the annual Corporate Governance Scorecard Survey of the SEC and the PSE to benchmark its corporate governance practices against best practices. The Compliance Officer regularly monitors and evaluates compliance by the Board of Directors, management and employees with the Manual. Together with the Human Resources Department, the Compliance Officer also ensures the implementation of AP's rule against conflict of interests and the misuse of inside and proprietary information throughout the organization.

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management as well as in monitoring and evaluating management performance in meeting such goals. The different Board committees, namely, the Audit, Board Nomination and Compensation, Investor Relations, Board Strategy and Board Risk Management, which report regularly to the Board, are crucial to maintaining Board oversight in key management areas.

There are no major deviations from the Manual as of the date of this Prospectus. The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and responsive to the needs of the organization.

In addition, the ERC has also issued regulations that must be complied with by all power industry participants and which are designed to protect End-users. These regulations include The Magna Carta for Residential Consumers, Distribution Services Open Access Rules, the Code of Conduct for Competitive Retail Market Participants, Guidelines for Financial Standards of Generation Companies, the Philippine Distribution Code, the Philippine Grid Code and Business Separation Guidelines.

Further, ERC regulations require directors of distribution utilities to attend corporate governance seminars. The directors of each of the Distribution Companies have complied with ERC requirements for attendance at these seminars.

COMMITTEES OF THE BOARD

In support of the Board's primary responsibilities which are (i) to represent and protect the interests of the owners of the business, as well as other key external stakeholders, (ii) to govern the various businesses within the AP Group, in which AP has a direct interest; and (iii) to ensure compliance with regulatory standards; the provision of appropriate information and updates; and the effective representation of the Aboitiz brand and reputation, the Board of Directors of AP approved the creation of additional as well as consolidation of existing Board Committees during the board meeting last February 11, 2009.

The following are the Board Committees of the Company as of the date of this Prospectus:

Audit Committee

The Company's Audit Committee is responsible for assisting the Board in its fiduciary responsibilities by overseeing the optimization of effective financial management, as well as compliance with reporting regulatory requirements. The Audit Committee provides a general evaluation of and assistance in the overall improvement of its risk management, control and governance processes.

The Audit Committee must be comprised of at least three Director-members, each of whom must have adequate understanding, familiarity and competence regarding the Company's financial management systems and environment. The chairman of the committee must be an independent director. The Audit

Committee reports to the Company's Board. As of the date of this Prospectus, the members of the Committee are: Jose R. Facundo, Chairman, Romeo L. Bernardo, Mikel A. Aboitiz, and Juan Antonio E. Bernad.

Consistent with the Company's general audit policy, the Company also has in place a corporate audit team that reports to the audit committee. The Company's general audit policy is as follows:

- To maintain a corporate audit function as one means of providing management with information to better manage and control the operations of the Company, for which the management is responsible.
- To operate in compliance with guidelines approved by the audit committee and ratified by the Company's Board.
- To recognize that the corporate audit team performs an independent appraisal function with the responsibility of examining and evaluating all the activities of the Company and its affiliates and subsidiaries.
- To perform the Company's independent internal audit function through which the Company's Board, senior management and stockholders are provided with reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and complied with.
- To ensure that the minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Company's organizational and procedural controls.

The scope and particulars of the Company's system of organizational and procedural controls are based on the following factors:

- the nature and complexity of the Company's business and the business culture;
- the volume, size and complexity of transactions;
- the degree of risk;
- the degree of centralization and delegation of authority;
- the extent and effectiveness of information technology; and
- the extent of regulatory compliance.

The following is the Company's policy with regard to its external auditors:

- An external auditor enables an environment of good corporate governance as reflected in the Company's financial records and reports.
- An external auditor shall be selected and appointed by the stockholders upon recommendation of the audit committee.
- The reasons for the resignation, dismissal or cessation from service and the date thereof of an external auditor shall be reported in the Company's annual and current reports. This report shall include a discussion of any disagreement with the former external auditor on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure.
- The Company's external auditor shall not at the same time provide the services of an internal auditor to the Company and the Company shall ensure that non-audit work shall not be in conflict with the functions of the external auditor.
- The Company's external auditor shall be rotated or the handling partner shall be changed every five years or earlier.
- If the Company's external auditor believes that statements made in the Company's annual report, information statement or proxy statement filed during the engagement of such external auditor is incorrect or incomplete, the report of such external auditor shall present such views.

Board Nomination and Compensation Committee

The consolidated Board Nomination and Compensation Committee ensures that the right policies are in place to optimize likely successful succession to key/pivotal senior roles, especially succession in relation to the position of the Chief Executive Officer (CEO). The Committee reviews all nominations for appointment to key senior management roles; reviews the compensation polices and their application for the more senior levels in the organization; and evaluates the compensation to be paid to the Group CEO. The members of the Committee are: Jon Ramon Aboitiz, Chairman; Jose C. Facundo (Independent Director), Romeo L. Bernardo (Independent Director), Ernesto R. Aboitiz, Antonio R. Moraza and Xavier J. Aboitiz (Ex-Officio Member).

Investor Relations Committee

The Company's Investor Relations Committee is responsible for ensuring that all of its shareholders have access to officially disclosed and publicly available information regarding the Company. The Investor Relations Committee is also responsible for receiving and responding to investor and shareholder queries and in ensuring that investors and shareholders have easy and direct access to the Company's officially designated spokespersons. As of the date of this Prospectus, the members of the Committee were: Erramon I. Aboitiz, Chairman; Iker M. Aboitiz; Juan Antonio E. Bernad; Ms. Caroline Ballesteros and M. Carmela I. Naranjilla.

Board Strategy Committee

The Company's Board Strategy Committee handles strategic/policy, diversification and investment elements of the roles of the Board. The members of the Committee are: Jon Ramon Aboitiz, Chairman; Erramon I. Aboitiz, Mikel A. Aboitiz, Ernesto R. Aboitiz and Juan Antonio E. Bernad (Ex-Officio member).

Board Risk Management Committee

The Company's Board Risk Management Committee reviews any major business risk exposures across the AP Group, including risks categorized as strategic, reputational, operational, financial, compliance related, environmental and regulatory. The members of the Committee are: Antonio R. Moraza, Chairman; Erramon I. Aboitiz, Jose R. Facundo (Independent Director), Juan Antonio E. Bernad, Ernesto R. Aboitiz and the Chief Risk Management Officer (Ex-Officio Member).

EXECUTIVE COMPENSATION

Summary Compensation Table

Information as to the aggregate compensation paid or accrued to AP's Chief Executive Officer and other highly compensated executive officers, as well as other directors and officers during the last two completed fiscal years and the ensuing fiscal year are as follows:

Directors and Executive Officers	Period	Salary	Bonus	Other Compensation
TOP FIVE HIGHLY-COMPENSATED EXECUTIVES: 1. ERRAMON I. ABOITIZ - President & Chief Executive Officer 2. JON RAMON A. ABOITIZ - Chairman of the Board 3. MIKEL A. ABOITIZ – Director 4. JAIME JOSE ABOITIZ - EVP - Power Distribution Group 5. JUAN ANTONIO E. BERNAD - EVP- Regulatory Affairs				
All above named officers as a group	Actual 2006	₱13.300,000	₱1,000,000	₱660,000
	Actual 2007	₱13,780,000	₱1,004,000	₱1,910,000
	Actual 2008	₱ 11,510,000	₱ 1,000,000	₱ 6,350,000
	Projected 2009	₱ 12,430,000	₱ 1,080,000	₱ 6,860,000
All other directors and officers as a group unnamed	Actual 2006	₱5,000,000.00	₱400,000.00	₱2,600,000.00
	Actual 2007	₱7,300,000.00	₱540,000.00	₱2,600,000.00
	Actual 2008	₱ 7,720,000	₱620,000	₱5,580,000
	Projected 2009	₱ 7,760,000	₱660,000.00	₱ 6,020,000.00

Standard arrangements

Other than payment of a director's allowance of ₱80,000 per month and a per diem of ₱50,000 per board meeting and ₱30,000 per committee meeting, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

Other arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, for any service provided as a director. None of the directors receive any other compensation in their capacity as director other than those stated above.

Employment contracts between the company and named executive officers

There are no special employment contracts between the Company and the named executive officers. There is no compensatory plan or arrangement between the Company and any executive in case of resignation or any other termination of employment or from a change in the management control of AP.

Warrants and options outstanding

There are no outstanding warrants or options held by the Company's President and CEO, the named executive officers, and all officers and directors as a group.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of February 28, 2009

Title of Class	Name/Address of Record Owner and Relationship with AP	Name of Beneficial Owner and Relationship with AP	Citizenship	No. of Shares Held	Percentage of Class
Common	1. Aboitiz Equity Ventures Inc. Aboitiz Corporate Center Gov. Manuel A. Cuenco Ave., Kasambagan, Cebu City 6000 Parent Company	Record	Filipino	5,594,840,510	76.03%
	2.PCD Nominee Corp.		Filipino	913,737,761	12.42%
	3.PCD Nominee Corp.		Non-Filipino	543,992,065	7.39%

Aboitiz Equity Ventures Inc. (AEV) is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of February 28, 2009, the following entities own five percent (5%) or more of AEV:

Stockholder	Nationality	No. of Shares	Amount of Shares	Percentage
Aboitiz & Company, Inc.	Filipino	2,476,022,415	2,476,022,415.00	43.48%
PCD Nominee Corporation	Filipino	606,620,536	606,620,536.00	10.65%
Ramon Aboitiz Foundation, Inc.	Filipino	420,915,863	420,915,863.00	7.39%
PCD Nominee Corporation	Non-Filipino	413,833,225	413,833,225	7.27%

Security Ownership of Management and Nominees as Directors as of December 31, 2008 (Record and Beneficial

Title of Class	Name of Beneficial Owner and Position	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common	Mr. Jon R. Aboitiz Chairman, Board of Directors	1	Direct	Filipino	0.00%
		5,959,020	Indirect		0.08%
Common	Mr. Erramon I. Aboitiz President and Chief Executive Officer	1	Direct	Filipino	0.00%
		7,575,000	Indirect		0.10%
Common	Mr. Ernesto R. Aboitiz Director	4,083,001	Direct	Filipino	0.06%
Common	Mr. Juan Antonio E. Bernad Director, Executive Vice President - Regulatory Affairs	520,001	Direct	Filipino	0.02%
Common	Mr. Mikel A. Aboitiz Director	1	Direct	Filipino	0.00%
		4,385,197	Indirect		0.06 %
Common	Mr. Antonio R. Moraza Director	1	Direct	Filipino	0.00%
		21,601,078	Indirect		0.29%
Common	Mr. Jose R. Facundo Independent Director	1,000	Direct	Filipino	0.00%
Common	Mr.Romeo L. Bernardo Independent Director	1,000	Direct	Filipino	0.00%

Title of Class	Name of Beneficial Owner and Position	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common	Mr. Iker M. Aboitiz First Vice President/CFO/Corporate Information Officer	2,745,872	Direct	Filipino	0.04%
Common	Mr. Luis Miguel Aboitiz Senior Vice President – Power Generation	2,060,000	Direct	Filipino	0.03%
Common	Mr. Jaime Jose Aboitiz Executive Vice President – Power Distribution	2,362,500	Direct	Filipino	0.03%
Common	Mr. Gabriel T. Mañalac First Vice President – Treasurer	50,000	Direct	Filipino	0.00%
Common	Wilfredo R. Bacareza, Jr. Vice - President	429,000	Direct	Filipino	0.010%
Common	Mr. Benjamin A. Cariaso, Jr. Vice President – Business Development	224,137	Direct	Filipino	0.00%
		168,103	Indirect		0.00%
Common	Mr. Alvin S. Arco Vice President – Regulatory Affairs	112,069	Direct	Filipino	0.0015%
Common	Anastacio D. Cubos, Jr. Vice President – Special Projects	112,069	Direct	Filipino	0.0015%
Common	Raul C. Lucero Vice President for Engineering-Distribution	110,000	Direct	Filipino	0.00%
Common	Ma. Chona Y. Tiu Vice President and Chief Financial Officer-Distribution	112,070	Direct	Filipino	0.00%
		100	Indirect		0.00%
Common	M. Jasmine S. Oporto Corporate Secretary	149,000	Direct	Filipino	0.00%
Common	Joseph Trillana T. Gonzales Assistant Corporate Secretary	62,527	Direct	Filipino	0.00%
Common	Cristina B. Beloria Assistant Vice President-Controller	20,000	Direct	Filipino	0.00%
Common	M. Carmela Naranjilla Assistant Vice President-Investor Relations	44,000	Direct	Filipino	0.00%
Common	Susan S. Policarpio Assistant Vice President-Government Relations	44,827	Direct	Filipino	0.00%
Common	Clovis B. Racho Assistant Vice President for Procurement and Logistics-Distribution	56,034	Direct	Filipino	0.00%
Common	Aladino B. Borja Jr. Assistant Vice President for Information Services-Distribution	56,034	Direct	Filipino	0.00%
	TOTAL	**53,163,543**			**0.72%**

Voting trust holders of 5% or more of common equity and change in control

No person holds more than five percent (5%) of AP's common equity under a voting trust or similar agreement.

No change in control in the Company has occurred since the beginning of its last fiscal year.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company is a member of the Aboitiz Group. As of the date of this Prospectus, AEV holds 76.03% of the issued and outstanding share capital of the Company.

The Company and its subsidiaries, in their ordinary course of business, engage in transactions with its affiliates and AEV and its subsidiaries. See "*The Company – Transactions With and/or Dependence on Related Parties*" on page 111. The Company's policy with respect to related-party transactions is to ensure that these transactions are entered into on an arm's –length basis and on terms comparable to those available from unrelated third parties.

The Company's related-party transactions principally consist of:

a) Management and other service contracts of certain subsidiaries and associates with ACO at fees based on agreed rates. Management and other service fees paid by the AP Group to ACO amounted to ₱40.73 million, ₱27.15 million, ₱15.54 million for the year ending December 31, 2008, 2007 and 2006, respectively.

b) Management agreement with AEV in 2006. AEV was the sole and general manager of DLPC, CLPC and Hedcor pursuant to amanagement agreement with AEV in 2006, for which the former was entitled to management fees based on agreed rates. In 2007 AEV transferred the management contract to the Company upon assignment of AEV of all its rights, title and interests in the shares of stock of DLPC, CLPC and Hedcor to the Company. Management fees charged by AEV in 2006 amounted to ₱391.25 million.

c) Service contracts of certain subsidiaries and associates with AEV at fees based on agreed rates. Professional, legal and other service fees paid by the Group to AEV amounted to ₱362.61 million, ₱366.57 million and ₱131.36 million for the year ending December 31, 2008, 2007 and 2006, respectively.

d) Management service agreement with AP and Vivant. The Company and Vivant are the general managers of CPPC for which they are entitled to a management fee based on agreed rates. Management fees charged to operations amounted to ₱12.00 million in 2008 and ₱12.00 million in 2007.

e) The Company serves as a guarantor on a loan obtained by Hedcor, from a local bank. The Company also obtained standby letters of credit to guarantee debts of certain subsidiaries and associates.

f) Energy Fees billed by Hedcor to SFELAPCO amounted to ₱ 17,34 in 2008 and ₱17,77 in 2007.

g) Energy fees billed by CPPC to VECO, which amounted to ₱2.35 billion in 2008 and ₱1.65 billion in 2007.

h) Aviation services rendered by AEV Aviation to the AP Group. Total expenses amounted to ₱19.86 million in 2008, ₱12.66 million in 2007 and ₱ 10.69 million in 2006.

i) Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) for a period of three years. Rental expense amounted to ₱32.24 million in 2008, ₱28.19 million in 2007 and ₱25.26 million in 2006. CPDC is a subsidiary of AEV.

(j) Advances to/from related parties, both interest and non-interest-bearing, payable on demand. Interest-bearing advances are based on annual interest rates ranging from 3.0% to 10.4% in 2008, 5.13% to 8.25% in 2007 and 5.17% to 17.0% in 2006. Net interest income (expense) incurred on these advances amounted to ₱ 142.7 million in 2008, ₱(29.9 million) in 2007 and ₱ (47.8) million in 2006.

MATTERS AFFECTING LIQUIDITY AND CAPITAL EXPENDITURE

As of December 31, 2008, the AP Group's cash reserves posted a balance of ₱14.92 billion after major investing and financing activities. The excess cash will be used to fund its programmed capital expenditures and to finance planned asset acquisitions for the remainder of the year.

In December 2008, AP closed its ₱3.89 billion 5-year and 7-year peso-denominated fixed rate notes issue. The proceeds of the notes will be used to finance AP's planned acquisitions as well as for other general corporate purposes.

Generally, AP's funding will be sourced from internally generated cash flows, and also from borrowings or available credit facilities from other local and international commercial banks.

Generation Business

100% Expansion in the Company's attributable capacity

AP's total attributable generating capacity will increase by 100% from 578 MW in 2008 to 1,161 MW by 2011 brought about by the following:

- Turnover of Tiwi-MakBan, or the 289 MW Tiwi geothermal facility in Albay and the 458 MW Makiling-Banahaw geothermal facility in Laguna by May 2009;
- Completion of the rehabilitation and expansion of the 75 MW Ambuklao-Binga plant. Once completed, the combined capacity is expected to expand by approximately 30.0% to 225 MW with combined annual generation of approximately 760 GWh.
- Completion of the Sibulan Hydropower Project which involves the construction of two Run-of-river hydro power plants with a combined capacity of 42.5 MW in Davao del Sur; and
- Completion of the 3x82 MW circulating fluidized bed coal-fired boilers of CEDC.

(a) Expansion through Acquisitions

APRI submitted the highest bid to PSALM for the 289 MW Tiwi geothermal facility in Albay and the 458 MW Makiling-Banahaw geothermal facility in Laguna. The price offered amounted to approximately US$447 million. The Asset Purchase Agreement between PSALM and APRI became effective last August 26, 2008. The Tiwi-MakBan geothermal facilities will be a significant addition to AP's generating capacity. Upon closing of the purchase, AP will have investments in generation facilities with a total of 1,040 MW in attributable capacity, 77.0% of which are powered from renewable sources of energy.

On November 28, 2007, SNAP-Benguet, a joint venture between AP and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Plant Complex consisting of the 75 MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100 MW Binga Hydroelectric Power Plant located at Itogon, Benguet. The price offered amounted to US$325 million. PSALM issued the Notice of Award to SNAP-Benguet on December 19, 2007.

On July 10, 2008, SNAP-Benguet, Inc. officially took over the ownership and operations of the 75 MW Ambuklao hydroelectricpower plant and the 100 MW Binga hydroelectricpower plant after these were turned over by the PSALM. Full payment for the acquisition cost for the plant was made in August 23, 2008.

(b) Expansion through Greenfield Projects

Construction work on the 42.5 MW Run-of-river hydroelectricpower plant in Barangay Sibulan, Sta. Cruz, Davao del Sur by AP's100%-owned subsidiary Hedcor Sibulan is still on going. The project entails the construction of two cascading hydropower generating facilities tapping the Sibulan and Baroring Rivers.

These facilities can generate an estimated 212 million kWh of clean and emissions-free energy annually. The generation from these plants will supply DLPC starting August 2009.

In August 2007, AP, together with Vivant Energy Corporation of the Garcia Group, signed a Memorandum of Agreement with Metrobank Group's Global Business Power Corporation for the construction and operation of a 3x82 MW coal-fired power plant in Toledo City, Cebu. Completion of the project is expected by first quarter of 2010. AP will have an effective participation of 26.4% in the project.

On February 17, 2007, AP entered into a Memorandum of Agreement with Taiwan Cogeneration International Corporation, a Taipei-based generation company, to collaborate in the building and operation of a 300 MW coal-fired power plant in the Subic Bay Freeport Zone. On May 30, 2007, RP Energy was incorporated as the 50:50 joint venture company for this project. The project is estimated to cost approximately US$500 million. The construction of the coal plant is being deferred pending further review of the power supply and demand requirements in the Luzon Grid.

Participation in the Government's Privatization Program for its Power Assets

The Company continues to look at other power generation assets to be auctioned by the government. AP intends to participate in PSALM's public auction for the Independent Power Producer (IPP) Administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators.

Distribution Business

The shift to PBR is expected to improve operating returns on distribution units.

NAMED EXPERTS AND COUNSEL

LEGAL MATTERS

All legal opinion/matters in connection with the issuance of the Bonds, which are subject of this Offer, shall be passed upon by Picazo, Buyco, Fider, Tan and Santos, for the Joint Lead Managers and Underwriters, and Puyat, Jacinto & Santos for the Company.

None of the foregoing legal counsel has any direct or indirect interest in the Company.

INDEPENDENT AUDITORS

The consolidated financial statements of the Company as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006, included in the Prospectus, have been audited by SGV & Co. as stated in their report appearing herein.

SGV & Co. has acted as the Company's external auditors for 10 years. Mr. Ladislao Z. Avila Jr. is the current audit partner for the Company and has served as such since 2004. The Company has not had any disagreements on accounting and financial disclosures with its current external auditors for the same period or any subsequent interim period. SGV & Co, has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities in the Company. SGV & Co will not receive any direct or indirect interest in the Company or in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Issue. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

In relation to the audit of the Company's annual financial statements, the Company's Corporate Governance Manual provides that the audit committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, proceeses and activities of the Company; (ii) ensure that other non-audit work provided by the external auditors are not in conflict with their functions as external auditors; and (iii) ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

As a matter of policy, the Company's Audit Committee makes recommendations to the Board of Directors regarding the selection of the Company's external auditor. The Audit Committee also pre-approves audit plans, scope and frequency before any audit is conducted.

Audit services of SGV & Co. for the 2006, 2007 and 2008 were pre-approved by the Audit Committee. The Audit Committee also reviewed the extent and nature of these services to ensure that the independence of SGV & Co. was preserved.

The following table sets out the aggregate fees billed to the Company for each of the last two years for professional services rendered by SGV & Co., excluding fees directly related to the Issue.

Fee Type	2006	2007	2008
Audit Fees	110,000	15,498,880	4,650,000
Other Fees	-	-	
Total	110,000	15,498,880	4,650,000

Of the total audit fees incurred in 2007, approximately ₱14.4 million was incurred by AP in connection with the initial offering of its common shares in July 2007. Of the total audit fees incurred in 2008, approximately ₱4.2 million was incurred by AP in connection with the requirements of this bond offering.

SGV & Co. does not have any direct or indirect interest in the Company.

TAXATION

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 30% final withholding tax. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

TAX-EXEMPT STATUS

Bondholders who are exempt from or are not subject to final withholding tax on interest income may claim such exemption by submitting the necessary documents. Said Bondholder shall submit the following requirements to the Registrar, or to the Joint Lead Managers (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (i) certified true copy of the tax exemption certificate issued by the Bureau of Internal Revenue on file with the Bondholder as certified by its duly authorized officer; (ii) with respect to tax treaty relief, proofs of support applicability of reduced tax rates, proof of tax domicile issued by the relevant tax authority of the Bondholder duly authenticated by a Philippine consul, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines; (iii) a duly notarized undertaking, in prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificate and agreeing to indemnify and hold the Issuer, the Registrar and Paying Agent free and harmless against any tax assessments, claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax; and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption or reasonable evidence of such exemption to the Registrar.

Bondholders may transfer their Bonds at anytime, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax exempt entities trading with tax paid entities shall be treated as tax paid entities for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under *"Payment of Additional Amounts; Taxation"* on page 50, within three (3) days from the settlement date for such transfer.

VALUE-ADDED TAX

Gross income arising from the sale of the Bonds in the Philippines by Philippine-registered dealers in securities shall be subject to a 12% value-added tax.

GROSS RECEIPTS TAX

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less 5%
Maturity period is more than five years 1%

In case the maturity period referred above is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

DOCUMENTARY STAMP TAX

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS

Income Tax

The holder of the Bonds will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the holder has held Bonds as capital assets.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall not be subject to income tax.

Therefore, any gains realized by a holder on the trading of **Five Year Bonds** shall be exempt from income tax.

Any gains realized by a holder of **Three Year Bonds** will be subject to income tax at the following rates:

Philippine citizens and residents – 5% to 32% of net gain
Nonresident aliens engaged in trade or business in the Philippines – 5% to 32% of net gain
Nonresident aliens not engaged in trade or business in the Philippines – 25% of gross income
Domestic, resident foreign and nonresident foreign corporations – 30% of net gain

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months.

Estate and Donor's Tax

The transfer by a deceased person, whether a Philippine resident or non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country

which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

THE PHILIPPINE POWER INDUSTRY

The Philippine Economy

The Philippine economy has been growing at its fastest pace in 25 years, with Gross Domestic Product (GDP) growth averaging around 5% since 2002. The Philippines is now considered as a Newly Industrialized Country (NIC) and is listed among the "Next Eleven" economies identified by Goldman Sachs as having the great potential to follow the recent economic success of the BRIC (Brazil, Russia, India and China) nations.

In 2007, the Philippines was ranked as the 37th largest economy in the world according to the International Monetary Fund. Though traditionally dependent on agriculture, the economic growth was spurred by significant contributions from manufacturing, mining, remittances from overseas Filipinos, tourism and, increasingly, Business Process Outsourcing (BPO).

Recently, however, economic expansion slowed down amid the looming global economic downturn that was rooted from the U.S. credit crunch in late 2007. In 2008, growth in GDP decelerated to 4.6% after achieving a 30-year high of 7.2% in 2007. Nevertheless, in comparison with the U.S., Japan, South Korea and other advanced countries that are currently in a recession, the Philippines had been resilient from the crisis and had maintained a growth level of more than 4.0% since 2002.

The latest 4.6% GDP growth was driven largely by:

1. the industry sector, which posted a 5.0% growth from 7.1% last year. Constituting around 32.7% of GDP, the sector growth was mainly attributed to the upsurge in construction activities that improved by 82%, while the manufacturing grew by 4.3% and electricity, gas and water (EGW) sub-sectors grew by 7.7%. This sector also included mining and quarrying activities which, slightly grew by 0.6% from its remarkable 25.9% growth that it achieved in 2007. This was a result of the lower demand for industrial metals (such as copper and nickel) brought about by the global recession that, in turn, affected world metal prices.

2. the services sector, which posted a modest 4.9% growth but less impressive compared to the 8.1% growth that it achieved last year. As the main driver of economic growth in previous years, this sector included the continued upsurge of BPO activities and by Real Estate activities. This sector, however, was slowed down by the reduction in growth by the transportation and communications and financial services sub-sectors.

Net Factor Income from Abroad (NFIA) continued to be a growth driver to the Philippine economy, improving by 20.8% as of the 4th quarter of 2008. During the same period, NFIA accounted for 10.2% of the country's Gross National Product (GNP). As a result, GNP growth reached 6.1%.

The upsurge in NFIA was mainly due to the increase in the stock and compensation of Overseas Filipino Workers (OFWs). Hailed as the country's modern day heroes, OFWs contribute significantly to the nation's growth and development and help withstand economic slowdown through their compensation. OFW remittances are a major source of the country's regular foreign exchange income, which help strengthen the peso.

To further reinforce the country's economic success, President Gloria Macapagal-Arroyo has set a goal to make the Philippines a developed country by 2020. As a roadmap to this objective, she instituted the creation of five "super regions" that will group the selected regions/process by their competitive advantages. These regions include: 1) the North Luzon Agribusiness Quadrangle; 2) the Metro Luzon Urban Beltway; 3) the Central Philippines Region, also known as the "Tourism Super Region"; 4) Agribusiness Mindanao Super Region; and 5) Cyber Corridor. This is in addition to the continued implementation of tax reforms, privatization of state assets and infrastructure spending.

Recently, in an effort to better weather the effects of the global economic crisis, the Philippine government is embarking on a stimulus package that involve the creation of a ₱300 billion fund. According to the National Economic Development Authority (NEDA), the planned stimulus package is aimed for job creation, infrastructure improvement, social protection and other pump-priming activities to improve competitiveness in preparation for a global rebound.

These continued economic expansion indicate potential for growth in Philippine electricity consumption. Compared to emerging countries such as Malaysia and Thailand, the country has potential for growth given its low electricity consumption per capita as indicated below:

	Population (in Millions)	Per Capita (US$)	Electricity Consumption / Capita (MWh)	Installed Capacity / Capita (KW)	Electricity Consumption (GWh '000)	Installed Capacity (MW)
Philippines	***88.5***	***1,624***	***0.6***	***0.2***	***55***	***15,000***
Malaysia	26.9	5,042	3.1	0.7	84	19,000
Thailand	65.3	3,737	2.0	0.4	135	26,000

Source: Economist Intelligence Unit, Energy Information Administration, April 2007, and US Department of State 2006

In addition, its aggregate installed capacity points towards possible shortages given the Philippines' economic growth.

One of the main priorities of the Philippine National Government is the privatization of all of its energy assets including key geothermal power plants, diesel-fired power plants, and Transco. Transco is a key organization which handles the transmission lines of the energy grids across the country. Included in this thrust towards privatization is encouraging more independent power producers.

The Philippine government's objectives is to create healthy competition in the energy sector towards increased electric power delivery, efficiency and lowered price of electricity in the country. Sale of key power generation and transmission assets is also a way for the Philippine government to address its growing budget deficit[6].

The government has had recent success with the sale of its transmission assets with proceeds from the Transco sale intended to pare some of the US$ 6-7 billion debt of the state-run NPC, once the single biggest drain on state finances[7].

With the implementation of the Electric Power Industry Reform Act of 2001 (EPIRA) slowly being realized, open access to electric power is within arm's reach, translating to the need for the Wholesale Electricity Supply Market (WESM) to step up its role not only in Luzon but also in the Visayas. Open access provides an investment environment that calls for more cost-efficient and diverse sources of power with the overall goal of strengthening consumer choice.

As per the 10-point development agenda of the Philippine President, provision of power and water supply to all barangays is a priority underscoring the role of the private sector in moving the country towards improved sources of electric power. Special emphasis has been put on strengthening energy efficiency and conservation under the Philippine President's 10-point development agenda.[8]

[6] (Manila Bulletin, *DOE: 35 Years of Efforts Towards Energy Self-Sufficiency*, 12/17/07)

[7] Manila Bulletin, *China State Grid Sees Profitable TransCo Deal*, 12/16/07

[8] *Ref: www.neda.gov.ph*

MTPIP, 2005-2010 Investments Responsive to the 10-Point Agenda

	2005-2010 Cost in PhP Billion				
	NG	**GOCC/ GFI**	**PSP/ LGU**	**Others**	**TOTAL**
1. Six in ten million jobs	188.5	329.9	56.7	15.8	591.9
2. Education for all	42.6	0.0	0.7	1.6	44.9
3. Balance the national budget.	7.6	0.0	0.0	1.1	8.7
4. Develop transportation networks and digital infrastructure.	279.1	62.8	0.0	3.8	345.9
5. Provision of power and water to all barangays.	9.0	107.3	242.2	19.7	376.2
6. Decongestion of Metro Manila.	62.2	28.2	44.2	0.0	134.6
7. Development of Clark and Subic as logistics centers in Asia.	0.0	91.2	0.0	0.0	91.2
8. Automation of the electoral process.	0.1	0.0	0.0	0.0	0.0
9. Just completion of the peace process.	7.0	0.0	0.0	4.5	11.5
10. Closure of wounds caused by division due to EDSA 1,2 and 3					
TOTAL	**596.1**	**619.4**	**343.8**	**46.5**	**1,807.0**

In a presentation at Malacañang on August 22, 2006, Hon. Romulo L. Neri, Secretary of Socio-Economic Planning and Director-General of the NEDA indicated that one of the Medium-Term Public Investment Program priorities of the country for 2006-2010 was 'optimizing power potentials and ensuring adequacy and sustainability of (electrical) supply,' (MTPIP, 2006-2010). On January 7, 2005, the NEDA estimated that 12.0% of the total Financing Requirements for the MTPIP, which equivalent to ₱262.5 Billion, would be provided for the Energy sector. Of this amount, NEDA plans to utilize ₱179 Billion on generation, ₱16.3 Billion on transmission, ₱7.3 Billion on barangay electrification, and ₱59.9 Billion on other projects (e.g. LNG terminal, Nat-Gas pipelines, sector studies, etc.) The bulk of total financing requirements is expected to come from private sector participation (PSP) and government-owned and controlled corporations ("GOCCs") and government financial institutions (GFIs).

MTPIP, 2005-2010 Financing Requirements by Source (in PhP Billion)

MTPIP Themes	**NG**	**GOCCs/ GFIs**	**PSP/ LGU**	**Others**	**Total**
Economic Growth and Job Creation	575.1	568.3	317.6	31.6	1,492.8
Energy	3.5	91.7	147.7	19.5	262.5
Social Justice and Basic Needs	191.0	1.1	12.4	9.9	214.3
Education and Youth Opportunity	125.9	0.0	0.9	5.9	133.3
Anti-Corruption and Good Governance	13.1	0.0	0.0	14.7	27.7
TOTAL	**908.6**	**661.6**	**478.6**	**81.8**	**2,130.6**

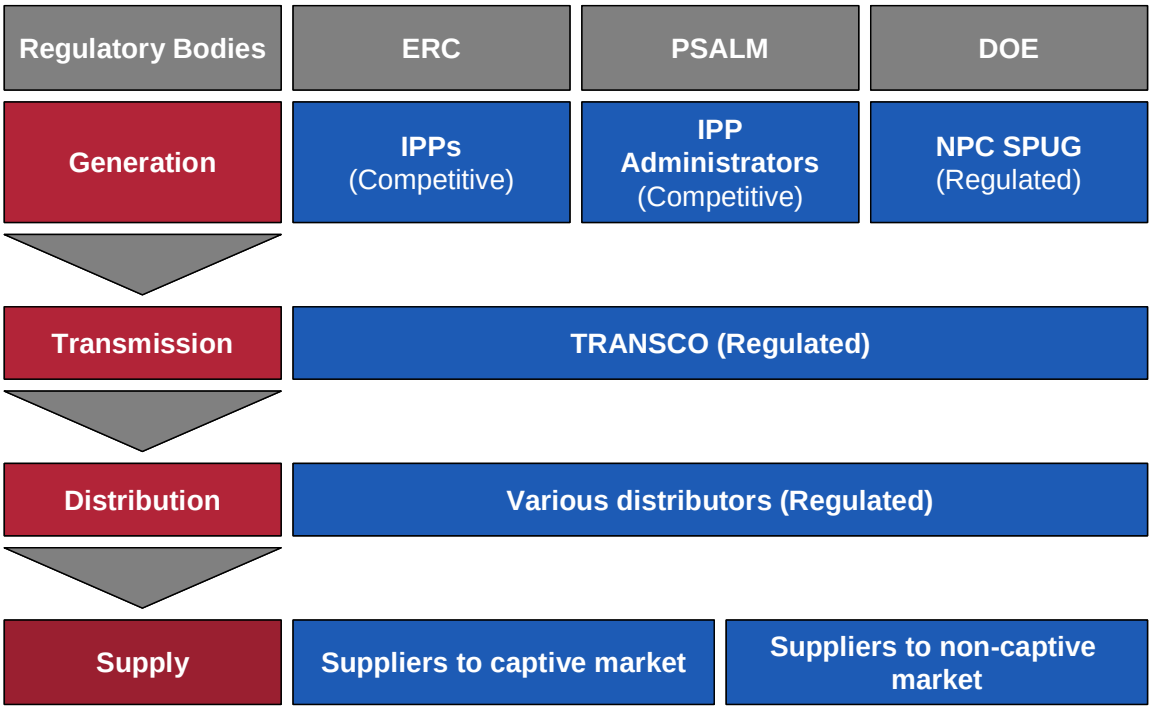
Private sector investments into the energy sector are welcomed by the Philippine Government given the numerous power plants and transmission lines that need to be rehabilitated.

ELECTRICITY MARKET

Overview

The Philippine power industry is divided into four (4) major sectors: Generation, Transmission, Supply and Distribution.

Under the previous power industry structure, NPC, a state-owned corporation, generates its own electricity and buys electricity from Independent Power Producers (IPPs).



The *generation sector* consists primarily of NPC and IPPs, which include the Generation Companies. The generation sector converts fuel and other forms of energy into electricity.

Prior to the issuance of Executive Order No. 215, generation used to be a monopoly of the NPC. However, due to the electricity shortage in the late 1980's, then President Corazon C. Aquino issued Executive Order No. 215 allowing private investors to take part in electric power generation. However, no generation company is allowed to own more than 30% of the installed generating capacity of a grid and/or 25% of the total nationwide installed generating capacity. At present, a number of IPPs generate and sell electricity to NPC, distribution utilities, and other consumers.

The *transmission sector* wheels generated electricity in bulk to load centers for distribution and consists of transmission grids, principally located in Luzon, Visayas and Mindanao. In order to minimize systems losses (primarily due to the dissipation of electricity), electricity is typically wheeled at high voltages to various distribution utilities and electric cooperatives. The transmission wheeling charges are subject to regulation and approval by the ERC.

The Government has recently turned over the operation of the power grid or the Transco to the National Grid Corporation of the Philippines (NGCP) last January 15, 2009. NGCP consortium is made up of Calaca High Power Corporation, Monte Oro Grid Resources Corp. and the State Grid Corp of China (SGCC). SGCC is one of the world's largest power utility companies. NGCP paid an initial US$987.5 million in January 2009 as part of a US$3.95 billion deal. Under the concession, NGCP had to pay 25% of the total bid price to obtain the contract, with the remaining 75% to be paid over a period of 20 years. It

is now required to operate the grid in accordance with industry standards for 50 years but the concession contract was only for 25 years.

Distribution of electricity at its usable voltage to end-consumers is performed by investor-owned electric utilities. These investor-owned electric utilities are notably the Manila Electric Company (MERALCO) in the Greater Manila Area, VECO in Cebu, and DLPC in Davao. There are a few local government-owned utilities and more than 100 electric cooperatives which sell to households as well as commercial and industrial enterprises located within their franchise areas. These are sold at retail rates regulated by the ERC.

The *supply sector* consists of distribution utilities and electric cooperatives, which are currently the only entities allowed to supply electricity to the public. Except for distribution utilities and cooperatives with respect to their existing franchise area, all suppliers of electricity would require a license from the ERC.

The DOE sets policy directions for the energy industry. DOE has steadily worked to improve the quality of life of the Filipino by formulating and implementing policies and programs to ensure sustainable, stable, secure, sufficient, accessible, and reasonably priced energy[9].

The DOE is complemented by the National Electrification Administration NEA which provides financial and technical assistance to electric cooperatives towards the goal of ensuring that all *barangays* have access to electrical power.

In 2001, the Philippine legislature, seeing a need to reform the electric power industry enacted Republic Act no. 9136, otherwise known as the EPIRA.

It is important to note that EPIRA introduced the formation of standards including the formation of the Grid Code and Distribution Code to ensure reliable and stable electric power supply of the archipelago.

Two major reforms are embodied in EPIRA, namely, the restructuring of the electricity supply industry and the privatization of the NPC. On one hand, the restructuring of the electricity industry calls for the separation of the different components of the power sector namely, generation, transmission, distribution and supply. On the other hand, the privatization of the NPC involves the sale of the state-owned power firm's generation and transmission assets (e.g., power plants and transmission facilities) to private investors. These two reforms are aimed at encouraging greater competition and at attracting more private-sector investments in the power industry. In the long run, a more competitive power industry will, in turn, result in lower power rates and a more efficient delivery of electricity supply to end-users.

In addition, the establishment of a WESM is a venue for competitive power rates as a commodity. It is a clearing house to reflect the economic value of electricity for a particular period, as indicated by the "spot price". This market differs from other markets because electricity cannot be stored in large quantities and it is not possible to trace which generator produced the electricity consumed by a particular customer. For such reasons, the wholesale electricity market uses the concept of a "pool" where all electricity output from generators are centrally coordinated. Generators as well as buyers of bulk electricity compete for a share of this pool, to be dispatched and scheduled to meet the electricity demand in real time *[Ref: www.wesm.ph]*. Currently, there is a WESM for Luzon. The Visayas WESM has been drafted and currently in the process for implementation and Mindanao WESM, however, is still under evaluation.

The establishment of the WESM will facilitate a transparent and competitive electricity market for the country and will serve as an efficient venue for its trading thereby ensuring that generation is balanced with the ever-changing demand for electricity. The WESM is designed to encourage competition in generation while at the same time providing incentives for the effective operation and development of the transmission networks, coupled with locational price signals to encourage the economically correct geographic placement of any future planned generation *[Ref: www.wesm.ph]*.

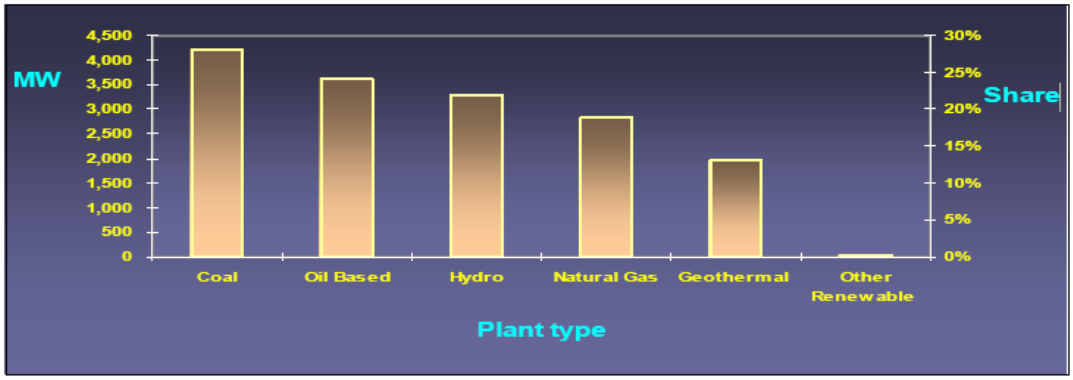
[9] (Manila Bulletin, *DOE: 35 Years of Efforts Towards Energy Self-Sufficiency*, 12/17/07)

The Power Sector

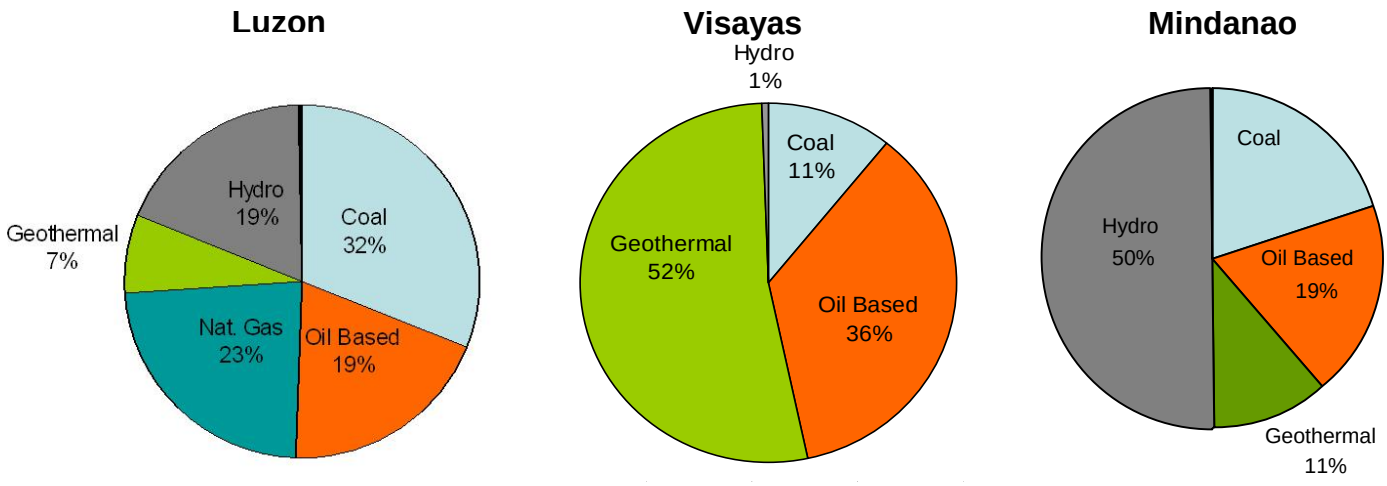
Installed Capacity

As of December 2007, the Philippines has a total installed generating capacity of 15,937 MW. Coal-fired power plants accounted the largest share in terms of installed capacity, contributing 4,213 MW or 26.44% of the mix. Majority of these coal plants are located in the Luzon grid. Oil-based power plants accounted for 3,616 MW or 22.69% of the total capacity. Hydroelectric power plants, which is the main source of electricity in the Mindanao grid accounted for 3,289 MW or 20.64%. Natural gas fired power plants in the Luzon grid amounted to 2,834 MW or 17.78%; geothermal power plants which are mostly located in the Visayas grid accounted for 1,958 MW or 12.29% to the total installed capacity. Other renewable energy such as wind and solar accounted for only 0.16% of the capacity mix.

2007 Installed Capacity by Energy Source



Power Source by Major Island Group



Dependable Capacity

Dependable capacity refers to the maximum capacity a power plant can sustain over a specified period modified for seasonal limitation less the capacity required for station service and auxiliaries.[10] It changes due to various factors affecting the actual operational conditions of the power plants like allowances for the planned/scheduled outage rate, forced outage rate, de-rating and water inflow of hydro plants. The dependable capacity of hydro plants were high during rainy months and low during dry months.

[10] www.doe.gov.ph

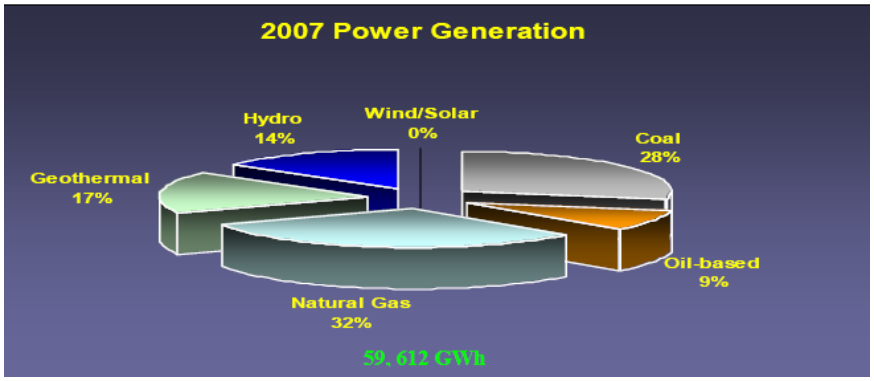
Out of the 15,937 MW installed capacity, 13,205 MW or 83% are the corresponding dependable capacity reported. The generation capacity information came from the owners of existing power generating facilities and from the operator of the power grid.

Generation

Gross power generation increased by 4.98% from 2006 to 2007, reaching 59,612 GWh in 2007 from 56,784 GWh in 2006. Natural gas fired power plants remain the dominant source of fuel for power generation after replacing coal-fired power plants in 2005. Its share in the mix is consistently increasing from 18.1% in 2002 to 31.52 percent in 2007.

Natural gas accounted the highest among generation mix (31.52%) or 18,789 GWh of the total generation. This was followed by coal at 28.24%. Meanwhile generation from Hydroelectric power plants fell by 13.84%, from 9,939 GWh in 2006 to 8,563 GWh in 2007 due to summer months when rainfall and water levels in the dams fell below critical levels, preventing them from delivering optimal generation. Likewise, generation from geothermal power plants decreased by 2.39% from 10,465 GWh in 2006 to 10,215 GWh in 2007 due to outages experienced by the MakBan, Bacman and Tiwi geothermal plants in Luzon. Geothermal's share in the mix was also lower from 18.43% in 2006 to 17.14% in 2007. Most occurrences of outages from geothermal power plants were due to deactivated shutdown which resulted from steam deficiency as well as isolation due to transmission network related problems. Generation from oil-based power plants increased by 10.36% in 2007, from 4,665 GWh in 2006 to 5,148 GWh in 2007 since oil-based power plants were in full operation in Luzon grid for the entire month of July during the time that Pagbilao and Sual coal-fired power plants were on outages due to fuel constraints. Other renewable energy such as wind and solar, grew by 8.31% contributing a meager 0.10% of gross generation in 2007.

Power Generation by Source



Electricity and Sales Consumption

Total sales all over the country posted an accelerated growth during the year at 5.0% from 45,672 GWh in 2006 to 48,009 GWh in 2007. Out of this total, 35,906 GWh or 60.23 percent were contributed by the private investor-owned utilities.

Significant increases were observed in the commercial sector as sales went up by 6.0% from 12,679 GWh in 2006 to 13,470 GWh in 2007. This can be attributed to the increasing number of small-scale businesses and call centers. Rapid increase was also seen in “others” which includes street lightings, public buildings and others not elsewhere classified.

On a per grid basis, despite the recurring browouts, Visayas recorded the highest growth at 8.0% from 5,551 in 2006 to 6,017 in 2007. Significant increases were observed in the “others” sector at 72.0 percent, followed by commercial sector at 10.0%, residential sector at 6.0% and industrial sector at 3.0%.

Mindanao posted an increase of 6.0% in electricity sales with the "others" sector exhibiting 40.0% increased followed by commercial sector at 7.0%, residential sector at 5.0% and industrial sector at 3.0%.

Luzon sales also went up by 4.0% with the "others" sector posted an 8.0% increase. Commercial sector gained by 6.0%, industrial sector by 4.0% and despite the suppressed demand in the residential sector due to high electricity rates, the sector still exhibited an increase of 3.0%.

Electric Energy Consumption by Sector, 1997 to 2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Residential	10477	11936	11875	12894	13547	13715	15357	15920	16031	15830	16376
Growth Rate	*15%*	*14%*	*-1%*	*9%*	*5%*	*1%*	*12%*	*4%*	*1%*	*-1%*	*3%*
Commercial	7984	8725	8901	9512	10098	10109	11106	11785	12245	12679	13470
Growth Rate	*13%*	*9%*	*2%*	*7%*	*6%*	*0%*	*10%*	*6%*	*4%*	*4%*	*6%*
Industrial	12531	12543	12,444	13,191	14,452	13,628	15,188	15,012	15,705	15,888	16,522
Growth Rate	*6%*	*0%*	*-1%*	*6%*	*10%*	*-6%*	*11%*	*-1%*	*5%*	*1%*	*4%*
Others	1296	934	921	957	1,042	1,172	1,069	1,359	1,177	1,275	1,641
Growth Rate	*11%*	*-28%*	*-1%*	*4%*	*9%*	*12%*	*-9%*	*27%*	*-13%*	*8%*	*29%*
Utilities Own Use	1471	1590	1,536	2,390	2,196	1,928	3,410	4,653	4,591	4,227	3,994
Growth Rate	*10%*	*8%*	*-3%*	*56%*	*-8%*	*-12%*	*77%*	*36%*	*-1%*	*-8%*	*-6%*
Power Losses	3037	5849	5,754	6,345	5,713	7,915	6,810	7,227	6,817	6,885	7,608
Growth Rate	*-50%*	*93%*	*-2%*	*10%*	*-10%*	*39%*	*-14%*	*6%*	*-6%*	*1%*	*11%*
Total	**39796**	**41577**	**41,431**	**45,289**	**47,048**	**48,530**	**52,940**	**55,956**	**56,568**	**56,784**	**59,612**
Tot. Growth Rate	*8%*	*4%*	*0%*	*9%*	*4%*	*3%*	*9%*	*6%*	*1%*	*0%*	*5%*

After accounting for losses, electricity used by the power plants and distribution utilities, Philippines consumed 59,612 GWh in 2007. Total sales accounted for 48,009 GWh or 80.64% to total consumption.

Power Outlook in the Philippines

Based on the DOE's ongoing Philippine Energy Plan 2008-2030 Public Consultation Series, the distribution utilities' (DUs) total peak demand, which stood at 8,987 MW in 2007, is expected to grow annually at an average rate of 4%. Luzon's peak demand will increase annually at an average of 4.4%, with demand reaching 6,643 MW in 2007 and 10,208 MW in 2017. In Visayas, demand will peak at 1,102 MW in 2007 and 1,770 MW in 2017, equivalent to an annual average growth rate of 4.6% over the 2008 planning period. The DOE information available in its consultation series has not yet provided a development plan for Mindanao, but basing on the 2006-2016 PDPP, Mindanao DUs are projected to have an annual average rate of 4.67% increase in peak demand, from 1,147 MW in 2007 to 1,645 MW in 2016.

2007 Power Generation and Transmission

Grid	Installed Capacity (MW)	Dependable Capacity (MW)	Peak Demand (MW)
Luzon	12,172	10,029	6,643
Visayas	1,832	1,475	1,102
Mindanao	1,933	1,682	1,241
TOTAL	**15,937**	**13,186**	**8,987**

Ref: www.doe.gov.ph Philippine Energy Plan 2008-2030 Public Consultation Series

Philippine Electricity Supply

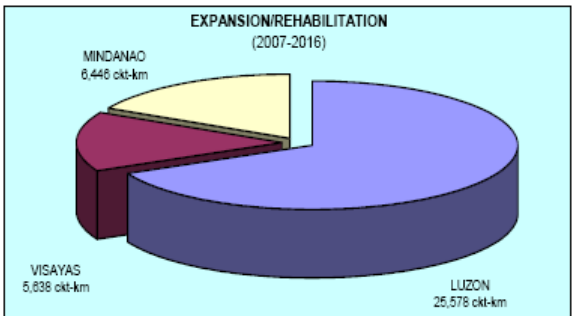
Between 2000 and 2007, the Philippines' total electricity generation capacity increased at a compound annual growth rate of 3%, from 13,185 MW in 2000 to 15,937 MW in 2007. The following table sets out the total generation capacity and the annual electricity production for the years indicated.

Year	Installed capacity (MW)	Change (%)(1)	Electricity Production (GWh)	Change (%)(1)
2000.....	13,185	6.1	45,290	9.3
2001……..	13,380	1.5	47,049	3.9
2002……..	14,702	9.9	48,467	3.0
2003……..	15,124	2.9	52,941	9.2
2004……..	15,548	2.8	55,957	5.7
2005……..	15,619	0.5	56,568	1.1
2006……..	15,803	1.2	56,784	0.4
2007……..	15,937	0.8 59,612	5.0	

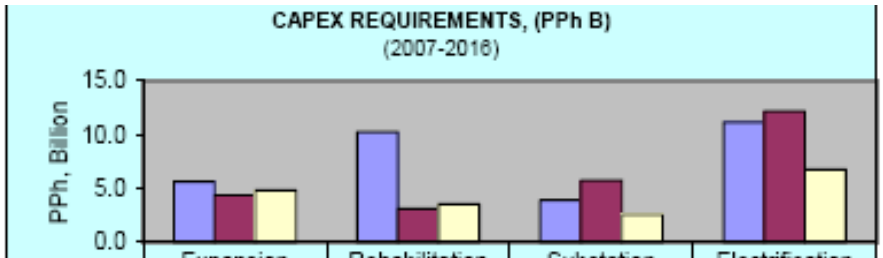
Source: DOE
Note: Year-on-year

Infrastructure and Capital Requirements

To meet projected increase in energy requirements, about 23,414 circuit kilometer (ckt-km) of lines are programmed for rehabilitation and/or upgrading and 14,249 ckt-km of lines are for construction while an additional 6,478 megavolt-ampere (MVA) substation capacity will constructed. On a per grid basis, Luzon DUs will require 4,415 MVA additional substation capacity, 5,466 ckt-km of new distribution lines and rehabilitation of 20,111 ckt-km of lines. In Visayas, DUs plan to rehabilitate 1,347 ckt-km of lines, extend coverage of distribution lines to 4,291 ckt-km, and construct new substation capacity of 1,184 MVA. In Mindanao, developments in the infrastructure requirements are focused on construction of 879 MVA substation capacity and 4,492 ckt-km of distribution lines, and rehabilitation of 1,955 ckt-km of lines.



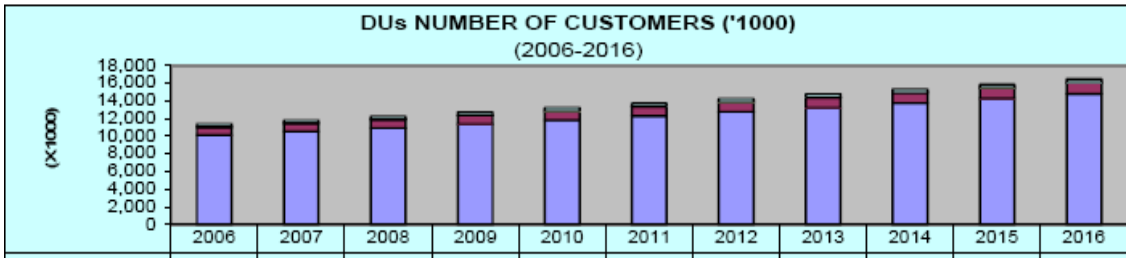
Implementing all these projects will require ₱73.97 billion. The largest bulk of the financial investments, estimated at about ₱30.01 billion is estimated to finance the electrification projects while ₱27.09 billion, will be utilized in the construction of new distribution lines and additional substation capacity and ₱16.88 billion for rehabilitation of distribution lines. In Luzon, costs for rehabilitation of distribution lines will amount to ₱10.21 billion whereas construction of additional substation capacity and implementation of electrification projects will require ₱3.90 billion and ₱11.11 billion, respectively. Expansion projects will entail ₱5.64 billion in cost. Looking at similar infrastructure requirements in Visayas, expansion of new distribution lines will reach ₱4.39 billion. Moreover, total cost for new substation capacities is estimated at ₱5.76 billion, electrification projects at ₱12.14 billion and rehabilitation projects at ₱3.12 billion. Similarly, to improve system performance in Mindanao, DUs are projecting an investment of ₱4.82 billion in expansion of new distribution lines, ₱2.57 billion in additional substation capacities, ₱6.76 billion in electrification projects, and ₱3.54 billion in rehabilitation and upgrading of existing distribution lines.



	Expansion	Rehabilitation	Substation	Electrification
Luzon	5.6	10.2	3.9	11.1
Visayas	4.4	3.1	5.8	12.1
Mindanao	4.8	3.5	2.6	6.8
TOTAL	14.9	16.9	12.2	30

Customers

In 2006, DUs provided electricity services to at least 11.3 million customers. Over the 2007-2016 planning period, the DUs expect a 3.85% increase in the number of customers in 2007, 3.89% in 2011 and 3.77% in 2016. The DUs in Luzon are projecting that their customers will reach 8.83 million in 2011 whereas DUs in the Visayas and Mindanao will have to expand their services to 2.48 million and 2.38 million customers, respectively by 2011.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
OTHERS	315	329	331	335	338	340	343	346	348	350	354
INDUSTRIAL	31	32	32	33	34	34	35	36	37	38	40
COMMERCIAL	874	907	943	979	1,015	1,052	1,090	1,129	1,169	1,210	1,253
RESIDENTIAL	10,128	10,517	10,922	11,349	11,800	12,274	12,746	13,226	13,722	14,242	14,792

Privatization of NPC Assets

PSALM currently manages and facilitates the privatization of the Philippine Government's power assets. Ownership of all generation assets of the NPC (generation facilities and IPP Contracts) were turned over to PSALM by virtue of the EPIRA. Under the EPIRA, PSALM is mandated to privatize these assets. The privatization of the NPC generation assets is seen as a key component in promoting competition in the generation sector and promote retail competition by allowing a diversification in the players of the sector. Notably, the EPIRA likewise limits the ownership of a single player to only 30% of the generating capacity in a grid and 25% of the generating capacity nationwide.

The primary objectives of privatization are as follows:

- Total electrification of the country
- Reliable, secure and affordable power supply
- Transparent and reasonable electricity prices
- Inflow of private capital
- Broader ownership base
- Fair and non-discriminatory treatment of public and private sector entities
- Protection of public interest as it is affected by rates and services of electric utilities
- Socially and environmentally compatible energy sources and infrastructure
- Utilization of indigenous and new and renewable energy resources
- Orderly and transparent privatization of the assets and liabilities of National Power
- Competitive operation of the electricity market and consumer protection
- Efficient use of energy and other modalities of demand side management

(Ref. www.psalm.gov.ph)

To date, the following assets of the NPC have been privatized:

- 360 MW Magat Hydroelectric Power Plant located in Ramon, Isabela
- 100 MW Binga Hydroelectric Power Plant located in Itogon, Benguet
- 100 MW Pantabangan Hydroelectric Power Plant located in Pantabangan, Nueva Ecija
- 75 MW Ambuklao Hydroelectric Power Plant located in Bokod, Benguet
- 12 MW Masiway Hydroelectic Power Plant located in Pantabangan, Nueva Ecija

- 1.8 MW Barit Hydroelectric Power Plant located in Camarines Sur
- 0.4 MW Cawayan Hydroelectric Power Plant located in Sorsogon City, Sorsogon
- 1.6 MW Agusan Hydroelectric Power Plant located in Manolo Fortich, Bukidnon
- 1.2 MW Loboc Hydroelectric Power Plant located in Loboc, Bohol
- 3.5 MW Talomo Hydroelectric Power Plant located in Tugbok, Davao City

The NPC has privatized approximately 68.78% of the generation plants in Luzon and Visayas. However, none of its BOT or BOO contracts have been privatized. A 70.0% level of generation asset divestiture in 2009 is targeted by PSALM.

Recently, generated proceeds from the privatization of the NPC assets already hit US$6.65 billion. The government estimated in early 2008 overall proceeds of US$7.0 billion from the privatization of both the transmission and generation assets of NPC. This has already been revised from the US$5.0 billion target first laid down when NPC's privatization plan was finalized in 2002.

In the divestiture block in 2009 is the 747 MW Tiwi and Makiling-Banahaw geothermal plants and the 246 Angat MW hydropower facility. Apart from the privatization of NPC generation assets, PSALM has successfully privatized the Transcowhich was turned over last January 15, 2009 to NGCP.

Wholesale Electricity Spot Market (WESM)

The WESM is a venue for trading electricity as a commodity. It is a clearing house to reflect the economic value of electricity for a particular period, as indicated by the "spot price". This market differs from other markets because electricity cannot be stored in large quantities and it is not possible to trace which generator produced the electricity consumed by a particular customer. For such reasons, the wholesale electricity market uses the concept of a "pool" where all electricity output from generators are centrally coordinated. Generators as well as buyers of bulk electricity compete for a share of this pool, to be dispatched and scheduled to meet the electricity demand in real time.

The WESM was created by virtue of Section 30 of the EPIRA. It mandated the DOE to establish the WESM within one year from its effectivity, and formulate the detailed rules for the WESM, jointly with electric power industry participants.

As provided in Section 30, the DOE formulated the creation of the Philippine Electricity Market Corporation (PEMC) which has undertaken the preparatory work and initial operation of the WESM. The PEMC is responsible for establishing, maintaining, operating and governing an efficient, competitive, transparent and reliable market for the wholesale and purchase of electricity and ancillary services in the Philippines in accordance with applicable laws, rules and regulations *[Ref: www.wesm.ph]*.

The establishment of the WESM will facilitate a transparent and competitive electricity market for the country. It will serve as an efficient venue for the trading of electricity to ensure that generation is balanced with the ever-changing demand for electricity. The WESM is designed to encourage competition in generation while at the same time providing incentives for the effective operation and development of the transmission networks, coupled with locational price signals to encourage the economically correct geographic placement of any future planned generation *[Ref: www.wesm.ph]*.

Retail Competition and Open Access

The EPIRA envisioned a scenario where end-users in the household demand level will be given a choice as to its source of electric power under a regime of free and fair competition. Under the regime of retail competition and open access, the transmission and distribution sectors will allow generators and suppliers to wheel their power to the end-user, thereby allowing end-users the right to choose their supplier of electricity. However, the transmission and distribution utilities will still continue to charge and collect its service fees to the end-users.

Section 31 of the EPIRA mandates that the following conditions must be met before retail competition and open access may be implemented:

(a) Establishment of the wholesale electricity spot market;
(b) Approval of unbundled transmission and distribution wheeling charges;
(c) Initial implementation of the cross subsidy removal scheme;
(d) Privatization of at least seventy (70%) percent of the total capacity of generating assets of NPC in Luzon and Visayas; and
(e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with the NPC to the IPP Administrations.

At present, only conditions (a), (b) and (c) have been met.

Once all the above enumerated conditions are met, retail competition and open access will be implemented in a staggered basis. Upon the initial implementation of open access, the ERC shall allow all electricity end-users with a monthly average peak demand of at least one megawatt (1 MW) for the preceding twelve (12) months to be the contestable market. Two (2) years thereafter, the threshold level for the contestable market shall be reduced to seven hundred fifty kilowatts (750 kW). At this level, aggregators shall be allowed to supply electricity to end-users whose aggregate demand with a contiguous area is at least seven hundred fifty kilowatts (750 kW). Subsequently and every year thereafter, the ERC shall evaluate the performance of the market. On the basis of such evaluation, it shall gradually reduce the threshold level until it reaches the household demand level.

The Energy Regulatory Commission, in preparation for the realization and implementation of retail competition and open access, has issued several guidelines to govern retail competition and open access. These guidelines include: Guidelines for the Issuance of License to Retail Electricity Suppliers; Code of Conduct for Competitive Market Participants; Rules on Customer Switching; Rules for the Supplier of last Resort; and Competition Rules and Complaint Procedures.

ERC regulations on retail competition and open access are seen to ensure the smooth transition to a competitive environment and promote the interest of all stakeholders in the electric power industry.

THE RENEWABLE ENERGY ACT OF 2008

Republic Act No. 9513, the Renewable Energy Act of 2008 (RE Law), is a landmark legislation and is said to be the most comprehensive renewable energy law in Southeast Asia. The RE Law was signed into law by President Gloria M. Arroyo in December 16, 2008.

The RE Law's declared policy is to encourage and develop the use of renewable energy resources of the country to reduce the country's dependence on fossil fuels and reduce overall costs of energy, and reduce, if not prevent harmful emissions into the environment to promote health and sustainable environment.

The RE Law designates the Department of Energy, as lead regulatory agency, and creates the National Renewable Energy Board (NREB), as the recommendatory and monitoring body for various programs under the RE Law. The NREB is composed of representatives from various government agencies, government financial institutions, from private RE developers, private distribution utilities, electric cooperatives, electricity suppliers and non-governmental organizations as well as the Renewable Energy Management Bureau (REMB) which is to be created by the DOE to implement the provisions of this Act.

Key features of the RE Law are mechanisms created to carry out its mandates, such as a renewable portfolio standard (RPS), feed-in tariff system, renewable energy market (REM), and a marketable green energy option.

The RE Law imposes a government share on existing and new RE development projects at a rate of one percent (1%) of gross income from sale of renewable energy and other incidental income from generation, transmission and sale of electric power and a rate of one and a half percent (1.5%) of gross income for indigenous geothermal energy. Micro-scale projects for communal purposes and non-commercial operations with capacity not exceeding 100 kW will not be subject to the government share.

More importantly, the RE Law offers, fiscal and non-fiscal incentives to RE developers of RE facilities, including hybrid systems, subject to a certification from DOE, in consultation with the BOI. These incentives include income tax holiday for the first seven (7) years of operation; duty-free importations of RE machinery, equipment and materials effective within ten (10) years upon issuance of certification, provided, said machinery, equipment and materials are directly, exclusively and actually used in RE facilities; special realty tax rates on equipment and machinery not exceeding one and a half percent (1.5%) of the net book value; net operating loss carry-over (nolco); corporate tax rate of ten percent (10%) after the 7^{th} year; accelerated depreciation; zero-percent value-added tax on sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of RE facilities; cash incentives for RE developers for missionary electrification; tax exemption on carbon emission credits; tax credit on domestic capital equipment and services. All fiscal incentives apply to all RE capacities upon effectivity of the RE Law. RE producers are also given the option to pay Transco transmission and wheeling charges on a per kilowatt-hour basis and are given priority dispatch. RE producers are likewise exempted from universal charge imposed under the EPIRA. In addition, the RE Law provides a financial assistance program from government financial institutions for the development, utilization and commercialization of RE projects, as may be recommended and endorsed by the DOE.

REGULATORY FRAMEWORK

The information in this section has been derived from various government and private publications or obtained from communications with various Government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Joint Lead Managers or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.

EPIRA

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to assure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant government agencies, electric power industry participants, non-government organizations, and electricity consumers, promulgated the law's Implementing Rules and Regulations policy on February 27, 2002.

The policy governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely, the DOE, NPC, the NEA, ERC and PSALM.

Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive, while the transmission and distribution sectors will remain regulated. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

The Generation Sector

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure legislative franchises and CPCN and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a COC from the ERC, as well as health, safety and environmental clearances from the appropriate government agencies under existing laws.

Generation companies are also subject to the ERC's rules and regulations on abuse of market power and anti-competitive behaviour. Generation companies are required to submit financial statements to determine abuse of market power and anti-competitive behaviour. The ERC may impose fines and penalties for violation of the EPIRA and the Implementing Rules and Regulations policy on market power abuse, cross-ownership and anti-competitive behaviour.

The goal of the EPIRA is for the generation sector to be open and competitive, with the private sector expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers and private distribution utilities, or through spot sale transactions in the WESM. Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the Grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine the reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. While generation charges are intended to be passed through to customers by distribution utilities, the process is not automatic. Upon commencement of Retail Competition and Open Access, generation rates, except those intended for the Captive Markets, will cease to be regulated.

In line with the Government's policy to promote competition within the generation sector, and additionally, to lessen the debt of NPC, the EPIRA required the privatization of all generation assets of the NPC. The EPIRA created PSALM, which is charged with the privatization of the assets of NPC. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by the NPC.

As of the date of this Prospectus, PSALM has sold only fourteen of NPC's operational generation assets, representing 2,171.53 MW of generating capacity of the Luzon-Visayas-Mindanao grids.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

The Transmission Sector

Until recently, the transmission sector is comprised solely of Transco, which was created pursuant to the EPIRA to, among other functions, assume the electrical transmission function of the NPC. Transco is mandated to act as the system operator of the nationwide electrical transmission system. Transco's principal function is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Grid Code. Transco must provide open and non-discriminatory access to its transmission system to all electricity users.

With the turn-over of the control, operation and management of the grid to the private concessionaire on January 14, 2009, the National Grid Corporation of the Philippines ("NGCP") together with Transco (which, under law, remain the owner of the transmission assets), comprise the transmission sector.

The EPIRA directed the privatization of the Government's transmission assets through either an outright sale of, or the grant of a concession over, the transmission assets while Transco's subtransmission assets are to be offered for sale to qualified distribution utilities. Pursuant to this process, a 25-year concession for the operation, maintenance and improvement of the transmission assets was awarded to NGCP. The term of the concession may be renewed to a maximum additional term of 25 years. The concessionaire holds a national franchise from the Philippine Congress.

The transmission of electricity is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated public utility business, Transmission wheeling charges, even under the concessionaire arrangement, are subject to regulation and approval by the ERC.

The Distribution Sector

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity from the ERC to operate as a public utility.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems), the DSOAR and the performance standards set out in the implementing rules and regulations of the EPIRA, which took effect on March 22, 2002.

This distribution sector is and will continue to be regulated by the ERC, with distribution and wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive customers is subject to ERC approval. In addition, as a result of the Government's policy to promote free competition and Open Access, distribution utilities are required to provide universal and non-discriminatory access into their systems within their respective franchise areas following commencement of retail Open Access.

The Supply Sector

The supply of electricity refers to the sale of electricity directly to end-users. The supply function is currently being undertaken solely by franchised distribution utilities. However, upon commencement of retail open access, the supply function will become competitive. As is the case with generation companies, suppliers do not have to obtain local or national franchises but must secure a license from the ERC and are subject to ERC rules on abuse of market power and other anti-competitive or discriminatory behavior. The supply of electricity to the Contestable Market is not considered a public utility operation and will not require a legislative franchise, although it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC in accordance with the ERC's rules and regulations.

As of the date of this Prospectus, Retail Competition has not been implemented. As a result, distribution utilities and electric cooperatives are currently the only entities allowed to supply electricity to the public. Upon the implementation of retail open access, however, it is expected that the Contestable Markets may choose where to source their electric power requirements and can negotiate with suppliers for their electricity.

Role of the ERC

With a view towards the establishment of a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market, the ERC was created pursuant to the EPIRA as an independent quasi-judicial body charged with regulating the electric power industry. The ERC replaced the former ERB, and plays a critical role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges, and retail rates, and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive End-users, including self-generating entities;
- to grant, revoke, review or modify the COCs required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
- to enforce a Grid Code and a Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundle their respective business activities and rates and to determine the levels of cross-subsidies in the existing retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the Contestable and Captive Markets;
- to fix user fees to be charged by Transco for ancillary services to all electric power industry participants or self-generating entities connected to the Grid;
- to monitor and adopt measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of Transco or any distribution utility or any changes therein;
- perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry;
- have the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities.

Role of the DOE

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- prepare and update annually the Philippine Energy Plan and the Philippine Power Development Program , and thereafter, integrate the latter into the former;
- ensure the reliability, quality and security of supply of electric power;
- exercise supervision and control over all government activities pertaining to energy projects;
- encourage private investments in the electricity sector and promote the development of indigenous and renewable energy sources for power generation;
- facilitate reforms in the structure and operations of distribution utilities for greater efficiency and lower costs;
- promote incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- educate the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establish the WESM in cooperation with electric power industry participants, and to formulate rules governing its operations.

Role of the Joint Congressional Power Commission

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine Senate and House of Representatives. Its responsibilities and functions include, among others, the following:

- monitor and ensure the proper implementation of the EPIRA;
- endorse the PSALM initial privatization plan for approval by the President of the Philippines;
- ensure transparency in the public bidding procedures adopted for the privatization of NPC's generation and transmission assets;
- evaluate the adherence of industry participants to the objectives and timelines under the EPIRA; and
- recommend necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

Role of PEZA

The PEZA was created under Section 11 of Republic Act No. 7916, otherwise known as "The Special Economic Zone Act of 1995" (the "PEZA Act"). "Ecozones" or "Special Economic Zones" refer to selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial, tourist, recreational, commercial, banking, investment and financial centers whose metes and bounds are fixed or delimited by Presidential Proclamations. An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones and tourist/recreational centers. PEZA has authority over "Ecozone Utilities Enterprises" which refers to business entities within an Ecozone that is duly registered with and/or franchised/licensed by PEZA to act as contractors/operators of light and power systems, water supply and distribution systems, communications and transportation systems within an Ecozone and other similar or ancillary activities as may be determined by PEZA's board of directors. Ecozone Utilities Enterprises are entitled to the following incentives: (a) exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5.0% on gross income; (b) additional deductions for training expenses; (c) incentives provided under R.A. 6957 as amended by R.A. 7718, otherwise known as the Build Operate and Transfer Law, subject to such conditions as may be prescribed by PEZA's board; and (d) other incentives available under the Omnibus Investments Code of 1987.

Section 12 (c) of the PEZA Act grants PEZA's board the power to regulate and undertake the establishment, operation and maintenance of utilities in an Ecozone and to fix just, reasonable and competitive rates therefor. With the subsequent enactment of the EPIRA, the ERC was vested with the power to regulate the distribution of electricity. and to regulate generation companies.

On March 11, 2004, the ERC and PEZA entered into a Memorandum of Agreement and agreed to cooperate and coordinate efforts to oversee the operations of power generation and distribution utilities inside Ecozones. The agreement provides that PEZA must register all new generation utilities enterprises for power to be supplied exclusively to economic zone locator enterprises operating within Ecozones as well as self-generation facilities of economic zone locator enterprises, and endorse the same to the ERC for the issuance of the required COC. Existing power generation utilities, including entities with self-generation facilities, must apply for the issuance of a COC with the ERC. PEZA-registered power generation utilities enterprises and economic zone locator enterprises that own generation facilities are required to comply with the same technical, financial and environmental requirements and/or standards of the Philippine Grid Code and the Philippine Distribution Code. Prior to the implementation of retail competition and open access, ERC, in coordination with PEZA, must undertake the fixing of generation power rates charged to economic zone locator enterprises. PEZA-registered power distribution utilities enterprises are required to comply with the same technical, financial and environmental requirements and/or standards prescribed by the Philippine Distribution Code, and such additional standards as may be required by ERC and PEZA. ERC, in coordination with PEZA, will undertake the fixing of distribution rates to be charged to economic zone locator enterprises, taking into consideration the special requirements of economic zone locator enterprises.

In a memorandum by the Department of Justice to the Office of the President dated February 5, 2007, the Secretary of Justice opined, that the repealing clause of the EPIRA did not repeal Section 12 (c) of the PEZA Act, which grants PEZA the power to regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in Ecozones and to fix rates therefor. However, the EPIRA did expressly repeal Section 5(f) of Republic Act No. 7227, the Bases Conversion and Development Act of 1992, which provides that the Bases Conversion and Development Authority (whose operating and implementing arm is the SBMA) is vested with the power to construct, own, lease, operate and maintain public utilities as well as infrastructure facilities within former U.S. military bases in the Philippines which includes the SBFZ.

Competitive Market Devices

Wholesale Electricity Spot Market

A significant change introduced by the EPIRA is the organization and establishment of the WESM. The WESM provides a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The WESM will also provide a venue for establishing merit order dispatch for generation companies whether or not they have bilateral contracts.

The EPIRA mandates the DOE to establish the WESM within one year from its effectiveness and directs the DOE and the electric power industry participants to formulate detailed rules therefor. In June 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules provide a mechanism to set electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising of an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules.

Prior to the commencement of the Luzon WESM commercial operations in June 2006, the ERC issued the following guidelines to address other issues that may arise during the commercial operations of the WESM:

- *Enforcement of 90% Cap on Bilateral Supply Contracts of Distribution Utilities.* The ERC is responsible for monitoring the 90% cap on power sourced from bilateral power supply contracts of distribution utilities' total monthly demand. Any distribution utility that violates the 90% cap shall not be allowed to recover from its customers the costs pertaining to the volume in excess of the cap.
- *NPC and PSALM's Designation as WESM Default Wholesale Suppliers.* Pursuant to a DOE circular designating NPC and PSALM as WESM Default Wholesale Suppliers upon commencement of WESM commercial operations, the ERC acknowledged that NPC and PSALM assume some risks arising from being the "generator of last resort." The ERC deemed it reasonable that NPC and PSALM be allowed to charge premium rates for the supply of power in their capacity as Default Wholesale Suppliers.

PEMC, together with the DOE and other industry participants, are preparing for the commencement of the launching of the commercial operations of the Visayas WESM. There is no definite timeline, however, for this undertaking as yet.

Open Access and Retail Competition

The EPIRA likewise provides for a system of open access on transmission and distribution wires, whereby Transco and distribution utilities may not refuse use of their wires by qualified persons, subject to the payment of distribution and wheeling charges. Conditions for the commencement of the open access system are as follows:

- Establishment of the WESM;
- Approval of unbundled transmission and distribution wheeling charges;
- Initial implementation of the cross subsidy removal scheme;
- Privatization of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- Transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPP administrators.

The Government expects retail competition and open access to be implemented in phases. As far as Luzon is concerned, the WESM began operations in June 2006 and retail competition has already been introduced, with end-users who comprise the contestable market for this purpose already identified.

Open access in Luzon is expected to commence soon. PSALM has so far privatized more than 50.0% of NPC's generation assets and is undertaking to reach the target 70.0% condition within 2009. At the same time, the privatization of the IPP outputs is proceeding in parallel with the initial selection of the IPP Administrators for the 1200 MW Sual coal-fired facility and the 700 MW Pagbilao coal-fired facility expected within the first half of 2009.

Upon implementation of open access, the various contracts entered into by utilities or suppliers may potentially be "stranded." Stranded costs refer to the excess of the contracted costs of electricity over the actual selling price of the contracted energy output of such contracts in the market. However, stranded costs arising from contracts approved by the ERB before December 31, 2000 will be allowed recovery through the universal charge.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandates that generation, distribution and wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines there will be material adverse effect upon the public interest or an immediate, irreparable, and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for open access and retail competition.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users will be exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

Implementation of PBR

On December 13, 2006, the ERC issued the RDWR for privately-owned distribution utilities entering PBR for the second and later entry points that sets out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the RORB that has historically determined the distribution charges paid by the Distribution Companies' customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a

four-year regulatory period will be set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charge is adjusted upwards or downwards taking into consideration the utility's efficiency factor set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets. In January 2009, CLPC was able to obtain its final determination on its PBR application and as of the date of this Prospectus, is in the process of applying for a tariff that is consistent with the revenue requirements in the final determination. In January 2009 DLPC and VECO formally entered the reset process for its entry into the new PBR methodology. Submissions and examinations with the ERC will be done in the first half of 2009.

SFELAPCO and SEZ will begin the reset process beginning October 1, 2009. During the 18 months prior to the PBR start date for each Distribution Company, each of these companies will undergo a regulatory reset process through which the PBR rate control arrangements are established based on documents submitted by each Distribution Company with the ERC, ERC resolutions, and consultations with each Distribution Company and the general public.

Reduction of Taxes and Royalties on Indigenous Energy Resources

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

Government Approval Process

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not being required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

Upon the introduction of Open Access and Retail Competition the rates charged by a generation company will no longer be regulated by the ERC, except rates for Captive Markets (which are determined

by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction, operation, including environmental licenses and permits. See "*Environmental Laws*" on page 202.

ENVIRONMENTAL LAWS

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The Department of Environment and Natural Resources, through its regional offices or through the Environmental Management Bureau, determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an EIS to the Environmental Management Bureau while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination to the proper Department of Environment and Natural Resources regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The Initial Environmental Examination refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an Initial Environmental Examination may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an Initial Environmental Examination was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the Department of Environment and Natural Resources to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not be later than the initial construction phase of the project. The Environmental Monitoring Fund shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

RENEWABLE ENERGY ACT OF 2008

Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008 (the "RE Law") was approved in 2008. The RE Law provides for the acceleration and development of renewable resources. It aims to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of AP. For a more extensive discussion of the RE Law,see "The Renewable Energy Act of 2008 on page 193.

The RE Law became effective in January 31, 2009. The RE Law stipulates the acceleration and development of renewable resources. Its policy is to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of AP.

MATERIAL AND OTHER CONTRACTS
IN THE ORDINARY COURSE OF BUSINESS

Material Contracts

The following are summaries of the terms of the principal contracts in the ordinary course of business related to the Company's power generation and distribution facilities and should not be considered to be a full statement of the terms and provisions of such contracts. Accordingly, the following summaries are subject to the full text of each contract.

AP Notes Facility Agreement

On December 18, 2008, the Company issued fixed-rate corporate notes (the "Notes") with maturities of 5 years ("Tranche 1 Notes") and 7 years ("Tranche 2 Notes") in the aggregate amount of ₱3.89 billion, pursuant to the terms and conditions of a Notes Facility Agreement (the "Agreement") entered into with BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch as Joint Lead Managersand BPI Asset Management and Trust Group as Notes Facility Agent. The Notes were issued on a private placement basis to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules.

The Notes constitute direct, unconditional, unsubordinated and unsecured obligations ranking *pari passu* with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company (other than subordinated obligations and those preferred pursuant to mandatory provisions of Law). The transfer, assignment and negotiability of the relevant Notes are restricted to not more than nineteen (19) Note Holders of record at any time, each of whom must be a Primary Institutional Lender. The Notes are transferable only in the books of the Notes Facility Agent.

The Company, through the Notes Facility Agent, pays interest on the outstanding principal amount of the Notes on each interest payment date for the interest period then ending at a rate per annum equal to the following: For the Tranche 1 Notes, Benchmark Rate plus one and one half percent (1.5%), but in no case less than eight percent (8.0%). For the Tranche 2 Notes, Benchmark Rate plus one and one half percent (1.5%), but in no case less than eight and a half percent (8.5%).

"Benchmark Rate" means the average of the Philippine Dealing System Treasury – Fixing ("PDST-F") displayed on the "PDEx" page of Bloomberg (or such successor page or electronic service provider) for: (i) 5-year bid yield (with respect to the Tranche 1 Notes); or (ii) 7-year bid yield with respect to Tranche 2 Notes), both on Philippine Government Treasury securities as of 11:30 a.m. on the interest rate setting date and one (1) Banking Day prior to the interest setting date.

The interest rate is determined on the relevant interest rate setting date by reference to the Benchmark Rate. In the event that: (i) the Notes; or (ii) any interest due thereon; or (iii) any other sum due thereunder or under the Notes, is not paid in full when due, at stated maturity or by acceleration, the Company must pay the Note Holders a default penalty at a rate of 1.0% per month, or a fraction thereof, above and in addition to the interest rate payable. All payments of interest (including default interest) are computed on a 30-day month/360-day year basis.

The Company is subject to the following negative covenants, among others:

a. Encumbrances - The Company shall not permit any indebtedness to be secured by or to benefit from any lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Company or the right of the Company in receiving income, provided however, that this shall not prohibit the following:

(i) liens or charges for current taxes, assessment, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;

(ii) deposits or pledges to secure statutory obligations, surety, or appeal bonds, bonds for release of attachment, stay of execution of injunction, or performance bonds for bids, tenders, contracts (other than for the repayment of borrowed money) or leases in the normal course of business; liens, pledges, charges, and other encumbrances on the properties and assets of the Issuer: (i) imposed by law, such as carriers' liens, warehousemen's liens, mechanics' liens, unpaid vendors' liens, and other similar liens arising in the ordinary course of business; (ii) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; and (iii) arising out of the set-off provision on other agreements of the Issuer relating to indebtedness;

(iii) mortgage, pledge, or other security interests in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations and other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program, and the aggregate principal amount of such preferential financing does not exceed thirty-five percent (35.0%) of the Company's total assets;

(iv) any mortgage, charge, pledge, lien, or other encumbrance or security interests over its cash balance, short-term cash investments, and marketable equity securities in favor of banks and other financial institutions, which secure: (i) Standby Letters of Credit to be used solely to guarantee additional equity infusion by the Issuer in its Subsidiaries or Affiliates; and/or (ii) foreign currency swap transactions; or

(v) other Liens: (i) created solely by operation of law; and (ii) on such other assets as may be disclosed in writing by the Issuer to the Lenders prior to the execution of the Agreement.

b. Declaration and Payment of Cash Dividends/Issuance of Share - The Company shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the finance documents are current and updated.

c. Maintenance of Financial Ratios - The Company shall not permit its debt-to-equity ratio to exceed 2:1 calculated based on the Company's year-end audited financial statements; Provided, however, that for the purposes of determining compliance with the required debt-to-equity ratio, the outstanding preferred shares and contingent liabilities of the Company, including but not limited to the liabilities in the form of corporate guarantees in favor of any other person or entity shall be included in the computation of the Company's outstanding debts.

GENERATION COMPANIES

LHC

Bakun Power Purchase Agreement (Bakun PPA)

On November 24, 1996, NPC entered into a PPA with the consortium of NORMIN, Ever Electrical Manufacturing, Inc., AEV and PHPL for the Bakun hydroelectric power plant project. The consortium was selected by NPC to construct and operate, on a BOT basis, the Bakun hydroelectric facilities located at the Bakun River in the provinces of Benguet and Ilocos Sur in Northern Luzon. The consortium established LHC for the purpose of performing the undertakings with respect to the Project.

Under the Bakun PPA, LHC is responsible for the design, construction, equipment, maintenance, operation and repair of the 70 MW hydroelectric power generating facility at its own cost. LHC is also

responsible for the maintenance of the watershed for which NPC shall pay LHC a watershed management fee. NPC is responsible for installing a transmission line and interconnection facilities to permit electrical connections between the facilities of NPC and the Bakun hydroelectric power plant.

The Bakun PPA provides for a cooperation period of 25 years, which began on the completion date of the project on February 6, 2001 and will end on February 5, 2026. At the end of the cooperation period, ownership of the Bakun hydroelectric power plant will be transferred to NPC. During the cooperation period, LHC will make available and NPC will pay for all the electricity available from the Bakun plant.

In consideration of the power generated by LHC and delivered to NPC, NPC will pay LHC various fees including a capacity fee which is composed of a capital recovery fee and service fee payable in US dollars. The capital recovery fee is "front loaded" and has been declining steadily since the start of operations. The capital recovery fee will terminate after the end of the tenth year of operations. LHC is also entitled to an energy fee for the energy generated and made available to NPC at the delivery points in excess of the equivalent energy of the contracted capacity and an operating fee. Any late payments by either LHC or NPC is subject to interest equal to the overnight federal funds rate plus 2.0% for dollar payments and the Philippine T-Bill rate plus 2.0% for peso payments.

Under the Bakun PPA, events of default include the dissolution of LHC, transfer by LHC of its rights under the Bakun PPA without NPC's consent and non-generation of power by the Bakun hydroelectric power plant for a period exceeding four consecutive months. If an event of default occurs, and subject to certain terms and conditions, NPC may terminate the Bakun PPA and draw on LHC's construction or operation performance security for liquidated damages. Apart from the forfeiture of the performance security, LHC will have no other liability to NPC under the Bakun PPA.

Facility B1 Omnibus Agreement

On November 21, 2006, LHC entered into a Facility B1 Omnibus Agreement with Banco De Oro Universal Bank ("BDO") and Philippine National Bank ("PNB") (the "Lenders"). The following were also parties to the Agreement: AP and Pacific Hydro Bakun, Inc. ("PHBI") as the Sponsors; AB Capital and Investment Corporation ("AB Capital") as the Agent; and PNB as the Trustee. The Arrangers were BDO Capital and Investment Corporation and PNB Capital Corporation.

Under Part B of the Agreement (the "Facility B1 Loan Agreement"), the Lenders granted LHC a loan facility in the aggregate principal amount of US$65 million. The proceeds of the loan facility are to be used for the refinancing of a portion of the outstanding obligations of LHC under the original project loan facility and to finance the reimbursement to the LHC of the costs and expenses it incurred in relation to the construction of the 70 MW Bakun plant.

AP and PHBI as the Sponsors agreed to provide to BDO and PNB cash in the form of deposits in an amount equal to the outstanding obligations of LHC under the Agreement. AP and PHBI also authorized BDO and PNB to apply any and all amounts then standing to the credit of the hold out accounts towards the payment of the outstanding obligations of LHC under the Agreement. The loan is subject to an interest rate per annum based of the then-applicable interest rate for the cash deposited in the hold out accounts (the "Placement Rate") plus 0.5% per annum. The interest is payable in semi-annual periods. LHC must repay the principal outstanding under the Agreement on the earlier to occur of the final maturity date or the date when LHC makes a drawing on the standby loan facility.

Hold-Out

Under Part C of the Agreement (the "Hold-Out Agreement"), the hold out accounts refer to the bank account placements of AP in BDO and in PNB, each in the amount of at least US$6 million and of PHBI in BDO and in PNB, each in the amount of at least US$6 million.

As one of the covenants, LHC must not declare or pay any distribution, or return any capital, to its shareholders, or redeem, retire, purchase or otherwise acquire, directly or indirectly, for consideration,

any of its capital now or hereafter outstanding (or options or warrants issued by LHC with respect to its capital), or set aside any funds for any of the foregoing purposes, except as permitted under the Amended and Restated Omnibus Agreement dated as of November 21, 2006 amending and restating the Omnibus Agreement dated as of June 5, 1997 among Benguet Hydropower Corp. (now Hedcor, Inc.), Pacific Bakun Energy B.V., PHBI, LHC, Luzon Hydro Company Limited, AB Capital, ING Bank N.V., PNC, SolidBank Corporation (now Metrobank Corporation), The Bank of Nova Scotia as the Agent, PNB as the Operation Bond LC Coordinating Bank, SolidBank Corporation as the Project Accounts Depository and ING Bank N.V. as the DSRA Depository.

In case of default, the principal of, and all accrued interest on, the loan under the Agreement (together with any other amounts accrued or payable to the Lenders) becomes immediately due and payable without any further notice and without any presentment, demand or protest. AB Capital, as the Agent, also has the right to apply all amounts then standing to the credit of the hold-out accounts (and all interest accrued thereon) towards the payment of the unpaid obligations of LHC. LHC must also pay interest from the due date to the date of actual payment at the rate per annum determined by AB Capital to be equal to the aggregate of (i) 1.0%, (ii) the Placement Rate, and (iii) 0.5% per annum.

On December 23, 2008, AP entered into an Amendment Agreement assigning in favor of PHC all of its rights and obligations as a Sponsor Depositor under Part C (Hold-Out Agreement) and under Part A (General Provisions) of the Facility B1 Loan Agreement.

HEDC[11]

Land Lease Agreement between PSALM and HEDC

On April 19, 2004, PSALM and Hedcor entered into a land lease agreement for the lease by PSALM to HEDC of such parcels of land where the 3.5 MW Talomo Hydroelectric Plant purchased by HEDC is located including such other lands adjacent to the Talomo power plant (the "Leased Premises"). The Talomo Land Lease Agreement was entered into pursuant to the Asset Purchase Agreement between PSALM and HEDC covering the 3.5 MW Talomo Hydroelectric Plant located in Mintal, Tugbok, Davao City. (the "Talomo APA") The lease is for a period of 20 years commencing on the closing date of the Talomo APA. The lease may be renewed for another 10 years or the remaining corporate life of HEDC, whichever is shorter, upon mutual and written agreement of the parties, provided that, prior to renewal, HEDC has complied with all the terms of the lease at least 9 months prior to the expiration of the current term. The parties must execute a renewal of the current term at least 3 months prior to the expiry of the current term. In the absence of such renewal, the lease is deemed terminated at the end of the current term. In any case, the lease is co-terminus with the Talomo APA.

The Leased Premises must be used solely for the construction, testing, operation, management, expansion, and maintenance of the Talomo hydroelectric plant. The rent due for the entire term of the lease is US$51,300, net of any value-added tax and withholding taxes which are for the account of Hedcor and paid in advance on or before the closing date. All national and local government taxes, including real property taxes due on the Leased Premises are for the account of Hedcor. Hedcor cannot assign or transfer its rights under the lease, nor sublease the Leased Premises, nor mortgage, encumber, nor create any security interest in the Leased Premises nor to the leasehold rights granted under the lease. All assets of the Talomo hydroelectric plant and all other machineries, movable facilities, and equipment installed in the Leased Premises introduced by Hedcor remain the property of Hedcor upon termination of the lease. These may be removed by Hedcor at its own expense provided no damage is caused to the Leased Premises. Hedcor holds PSALM free from liability and Hedcor is solely liable for any damage to person or property during the term of the lease and for one year thereafter or while remaining on the Leased Premises, provided that, for environmental matters, Hedcor is liable during the term of the lease and for five years thereafter. Hedcor, at its cost, must maintain a general liability

[11] In 2005, the Company consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and NORMIN's hydroelectric assets into HEDCOR. Agreements involving HEDC and KORMIK have been transferred to HEDCOR.

insurance equivalent to the rentals or market value of the improvements, whichever is higher, indemnifying Hedcor and naming PSALM as an additional insured against damage to person or property or for loss of life or property occurring in the Leased Premises.

Electric Power Supply Agreements ("EPSA") between HEDC and DLPC

On December 15, 2004 and November 27, 1999, Hedcor entered into EPSAs with DLPC under which contracts Hedcor agreed to supply and deliver to DLPC all the electric power generated and produced by the hydroelectric plants of Hedcor located in Davao City. The term of the December 15, 2004 EPSA is for a period of 15 years, beginning in February 2006 and ending in February 2021. The November 27, 1999 EPSA will remain in effect until April 2010.

Under the EPSAs, DLPC will provide and install, at no cost to Hedcor, the necessary metering equipment, energy meters and related equipment for the measurement of electric energy generated and delivered by Hedcor and accepted by DLPC, which determines DLPC's payment obligations to Hedcor. Under the November 27, 1999 EPSA, the equipment used for metering the energy generated and delivered to DLPC are located at the Hedcor Upper Talomo power plant site located in Calinan, Davao City. Under the December 15, 2004 EPSA, the equipment used for metering the energy generated and delivered to DLPC are located at tapping points where the energy of the hydroelectric plants enter the power grid of DLPC.

Under the November 27, 1999 EPSA, the price of electricity generated and delivered by Hedcor to DLPC is equivalent to 95.0% of DLPC's immediate past month average cost of electricity procured and accepted by DLPC from its suppliers, including NPC. Under the December 15, 2004 EPSA, the price of electricity generated and delivered by Hedcor to DLPC shall be based on DLPC's average cost of electricity procured from its suppliers, including NPC. All monthly power billings are required to be paid not later than 30 days from date of receipt of original copy of the official invoice. Each time the rate structure or billing procedure of NPC changes, the parties shall meet, discuss and agree on the corresponding billing procedure for the EPSA.

In the event DLPC fails to pay its monthly power bills or accounts within the periods prescribed under the EPSAs, Hedcor shall have the option either to temporarily suspend its obligation to generate and sell electric power to DLPC or to rescind or terminate the EPSA. DLPC shall be deemed to have waived its preferential right to purchase electric power from Hedcor, in which case Hedcor may sell its electric power to such entities as may be allowed under the EPIRA and/or avail of such other remedies allowed under the EPSA or other pertinent laws.

Either party may transfer their rights and obligations under the EPSA upon advance written notice to the other party and to the ERC of such intention to transfer at least 30 calendar days prior to the date of the intended transfer. The assignor shall be responsible for obtaining the written confirmation of ERC to the assignment.

Transmission Service Agreement (TSA) with Transco

In 2002, Hedcor entered into a TSA with Transco covering transmission services for the power generated at the Asin hydroelectric plants located at Tadiangan, Tuba, Benguet. The TSA became effective on July 19, 2002 and will remain in effect until terminated in accordance with the OATS Rules.

On April 26, 2006, Hedcor entered into a TSA with Transco, for the transmission of power generated by HEDC and supplied to DLPC. The 2006 TSA will continue to be in full force and effect until January 19, 2015 or when terminated in accordance with the OATS Rules.

The OATS Rules shall form part of both TSAs and shall govern the provision of power delivery service and ancillary service by Transco to HEDC and Hedcor.

Interconnection Agreement between HEDC and Transco

With respect to the 2002 TSA between HEDC and Transco, the parties entered into an Interconnection Agreement in 2002 under the terms of which the parties agreed that the energy and capacity generated by HEDC's hydroelectric plants should be transmitted by connecting such generating facilities to Transco's grid through a 2.1 kilometer 69 kV line in La Trinidad, Benguet, to be constructed, operated and maintained by HEDC, and wheeling the energy through Transco's grid to the delivery points.

Under the Interconnection Agreement, Transco will provide firm transmission service to HEDC, all in accordance with the TSA, and the OATS Rules, as approved by the ERC. The Interconnection Agreement requires the payment by HEDC of a separate fee, which is computed in accordance with the 2002 TSA, and will remain in effect until terminated in accordance with OATS Rules.

HEDC has agreed to operate and maintain the 69 kV transmission line under its control, within the operating parameters and Transco's system requirements, and in accordance with the Transmission Operating Agreement discussed below.

Transmission Operating Agreement between HEDC and Transco

In connection with the Interconnection Agreement between HEDC and Transco, the parties entered into a Transmission Operating Agreement which shall have a term concurrent with the term of the Interconnection Agreement between the parties. Under the Transmission Operating Agreement, HEDC, in its operation of the 69 kV transmission line, is subject to applicable guidelines, criteria, rules, standards and operating procedures of Transco. The Transmission Operating Agreement requires the payment of a separate fee. Fees for services provided under the agreement are computed in accordance with the 2002 TSA and the agreement shall remain in effect until terminated in accordance with OATS Rules.

Transco is responsible for the purchase, installation, operation, maintenance, repair and replacement of all billing meters necessary to provide the transmission service. In turn, HEDC is responsible for the preparation, installation, operation and maintenance of the required metering facilities, other than the billing meters, subject to Transco's standard specifications and practices. Transco shall charge the cost of the billing meters it has provided under a separate monthly customer charge as part of its tariff. Prior to its installation, Transco and HEDC are required to review the metering equipment to ensure it conforms to such standards or practices.

EPSAs between HEDC and SFELAPCO

On October 10, 2001, HEDC entered into an EPSA with SFELAPCO under the terms of which HEDC agreed to supply and deliver to SFELAPCO energy generated and produced by the hydroelectric plants of HEDC, and SFELAPCO agreed to purchase and accept the same.

The term of the EPSA is for a period of two years from the date the EPSA is approved by the ERC and is renewable for another two years upon the mutual consent of the parties. The EPSA was renewed on October 1, 2004 for another two years. The EPSA is automatically renewed for an indefinite term after the lapse of the renewal period unless terminated by either party with 30 days' prior written notice to the other party. Pursuant to a letter issued by Hedcor to SFELAPCO, the EPSA's continued effectivity was confirmed to be on a billing-month-to-billing-month basis.

The price per kilowatt-hour of electricity generated and delivered by HEDC to SFELAPCO for the billing month is as approved by the ERC (which was obtained in July 2006) and is equivalent to 2.5% less than the average cost of energy purchased by SFELAPCO from NPC, excluding the demand-related charges and prompt-payment discount. Should NPC change its billing structure in such a way that the manner of calculating the equivalent price is no longer applicable, the parties shall meet and agree on a new method of billing based on the new NPC structure.

All monthly power billings are required to be paid not later than 30 days from date of receipt of original

copy of the official invoice. HEDC shall also give SFELAPCO a prompt-payment discount equivalent to 5.5% for payments made within 15 days from the date of receipt of the original copy of the invoice.

In the event SFELAPCO does not pay its bills or accounts within 60 days from due date, HEDC has the option either to temporarily suspend its obligation to generate and sell electric power to SFELAPCO or to rescind or terminate the EPSA. SFELAPCO shall be deemed to have waived its preferential right to purchase electric power from HEDC, in which case HEDC shall be authorized to sell the energy it produces to another buyer and/or avail of such other remedies allowed under the EPSA or other pertinent laws. Failure to pay any amount when due and owing shall render such amount to bear a penalty fee of 3.0% per month of the overdue amount (fraction of a month to be considered one month).

Under the EPSA, breach of any of the warranties, covenants or obligations set forth therein will be deemed as events of default. In case of a default, the non-defaulting party may terminate the EPSA and the defaulting party will be liable for any and all damages, actual and consequential, resulting from such default or termination. Potential events of default for HEDC include the failure to deliver electricity as required by the EPSA.

No transfer of their rights and obligations under the EPSAs may be made by either of the parties without written notice to the other party at least 30 days prior to the date of the intended transfer. Upon the transfer, the transferee shall issue a written assumption of liability for all the obligations of its transferor or assignor under the EPSA.

After the expiration of the EPSA dated October 10, 2001 between SFELAPCO and HEDC on July 2, 2008, SFELAPCO and HEDC entered into an agreement for the continued effectivity of the EPSA for the interim period prior to the execution of a new supply agreement on a billing month-to-billing month basis.

EPSA between HEDC and Philex

On December 28, 1994, HEDC entered into an EPSA with Philex under the terms of which HEDC agreed to supply or sell to Philex all the electric power generated by HEDC's mini-hydro electric power plants located at Sal-angan, Ampocaw, Itogon, Benguet.

The EPSA shall be for a period of 15 years from the date of signing on December 28, 1994 and will expire in December 2009.

Under the terms of the EPSA, HEDC is obligated to provide and install the necessary metering equipment to be utilized for the measurement of electric energy in determining Philex's payment to HEDC. HEDC shall deduct from its monthly billings the electricity consumed by the plant as metered by the station power meter.

The electric power purchase rate which Philex is obligated to pay HEDC is equivalent to 85.0% of the "avoided cost" of Philex computed based on the electricity billings of the immediate preceding month. "Avoided cost" refers to the cost per kWh Philex would have paid for the electric energy sold by NPC or BENECO had the HEDC generation facility not been available.

If Philex does not pay its bills within 60 days from billing or due date, then HEDC shall have the option either to temporarily suspend its obligations under the EPSA to sell or supply power to Philex or to terminate the EPSA without prejudice to the other remedies allowed under the EPSA or by law. Said remedies include, but are not limited to, the sale of power generated by HEDC to NPC or to other parties as specified in the RA No. 7156 otherwise known as the Mini-Hydroelectric Power Incentives Act.

Payment made by Philex within 30 days from receipt of a billing statement shall be considered as prompt payment which will entitle Philex to the prevailing NPC prompt payment discount rate. In case of failure by Philex to pay any amount owed to HEDC within 30 days after receipt of billing, Philex will be charged a penalty of 3.0% per month based on the outstanding and overdue account.

Transfer of the parties' rights and obligations under the EPSA may be made by either party with written notice to the other party at least 30 calendar days prior to the date of the intended transfer. The transferee, successor or assignee is required to make a written assumption of liability of all the obligations of its transferor or assignor under the EPSA.

HEDC and NORMIN

EPSA between HEDC and BENECO and NORMIN and BENECO

On July 15, 1992, HEDC entered into EPSAs with BENECO under the terms of which HEDC agreed to supply or sell to BENECO power and energy produced from HEDC's hydroelectric plants in Benguet (Bakun mini grid), subject to the available volume of water, to energize barangays located near the power plants. The EPSA was amended on November 12, 2004, with the price changed and the term of the agreement reduced to five years from 25 years.

Similarly, on July 8, 2004, NORMIN entered into an EPSA with BENECO whereby NORMIN agreed to supply or sell to BENECO enough power and energy produced from NORMIN's hydroelectric plants situated at Bakun, Benguet, to energize barangays Poblacion and Palina.

The term of the amended November 12, 2004 EPSA is for a period of five years ending in November 2009. The term of the July 8, 2004 EPSA is for a period of five years ending in July 2009.

BENECO will provide and install the necessary metering equipment which will be subjected to HEDC/NORMIN's inspection to ensure compliance to specifications. BENECO is also responsible for the maintenance of the electrical transmission line from the tapping point to the distribution transformer.

Under the November 12, 2004 HEDC EPSA and the July 8, 2004 NORMIN EPSA, the electric power purchase rate is based on the "avoided cost" of BENECO less a 3.0% discount granted by HEDC and NORMIN. "Avoided cost" shall refer to the cost per kWh BENECO would have paid to Transco and NPC had HEDC's or NORMIN's generation facilities not been available. Under the July 15, 1992 HEDC EPSA, the contract price is the prevailing average NPC composite price less 12.0%. The average NPC composite price means the net price paid by BENECO on a given month, inclusive of demand and energy charges but exclusive of penalties, surcharges, power factor charges, and/or NPC prompt payment discount reckoned on the same month's billings.

BENECO payments to HEDC/NORMIN made within 30 days from receipt of billing shall be considered as a prompt payment which will entitle BENECO to a prompt payment discount equivalent to the rate of prompt payment discount NPC grants for the covered period.

In the event BENECO fails to pay its bills or accounts within 60 calendar days from billing, then the sellers shall have the option to temporarily suspend its obligation to supply power to BENECO or to terminate the EPSA without prejudice to the other remedies allowed under the EPSA or by law. Said remedies shall include the sale of power generated by HEDC or NORMIN to NPC. In addition, BENECO's failure to pay any amount when due and owing will render such amount subject to a penalty fee of 3.0% per month of the overdue amount.

The cost of damages to appliances and other electrical fixtures of end consumers caused by power surges shall be paid by the HEDC/NORMIN and BENECO on a fifty-fifty sharing basis, provided that HEDC or NORMIN shall not be liable for the cost of damages of appliances and other electrical fixtures of the consumers if the power surge is not due to its fault or negligence. Under the HEDC EPSAs, BENECO is connected to the Ampohaw grid while under the NORMIN EPSA, BENECO is connected to the Bakun mini grid. If a dispute results as to the cause of the power surge and on whose fault or negligence is it attributable, the dispute shall be determined through an investigation conducted by representatives of the HEDC/ NORMIN and BENECO.

No transfer of the parties' rights and obligations under the EPSA may be made by the parties without

advance written notice to the other party at least 30 calendar days before the proposed transfer. The transferee, successor or assignee will make a written assumption of liability of all the obligations of its transferor or assignor under the EPSA.

EPSAs between HEDC and NPC and NORMIN and NPC

On June 26, 1992, HEDC and NORMIN entered into separate temporary EPSAs with NPC under the terms of which HEDC and NORMIN agreed to supply or sell to NPC the uncommitted power and energy produced at their respective hydroelectric plants in Benguet province. On January 20, 1993, HEDC and NORMIN entered into long-term agreements with NPC in relation to these EPSAs. Under the terms of these EPSAs, the term of each EPSA was extended to a period of 25 years expiring on January 30, 2018.

Under the EPSAs, HEDC and NORMIN agreed to arrange their billing schedule in accordance with the billing system of NPC. The billing meters are read monthly by a group composed of NPC, HEDC and NORMIN representatives.

The maintenance of the 69 kV transmission line connecting the power stations to NPC's tapping points shall be the responsibility of HEDC and NORMIN.

On June 15, 2000, the parties entered into Supplemental Agreements in relation to these EPSAs (the "Supplemental EPSAs"). Under the terms of the Supplemental EPSAs, NPC will pay for energy generated not exceeding the combined actual energy generation of HEDC and NORMIN of 130 GWh per calendar year at a power purchase rate equivalent to 88.0% of the prevailing effective average monthly power rate of the NPC Luzon Grid. For energy generated in excess of 130 GWh but not more than 150 GWh per calendar year, NPC will pay at a rate equivalent to 75.0% of the power purchase rate. At NPC's option, NPC may purchase the energy generated in excess of 150 GWh per calendar year at a rate equal to 75.0% of the power purchase rate. With the consent of NPC, HEDC and NORMIN are allowed to sell energy generated in excess of 150 GWh per calendar year to parties other than NPC.

NPC must pay promptly HEDC and NORMIN within 30 days from receipt of billing. Overdue bills will be subject to a penalty charge equivalent to 18.0% per annum.

No transfer of rights and obligations under the EPSA shall be made by any of the parties without written advance notice to the other party at least 30 calendar days prior to the date of the intended transfer. The transferee is required to make a written assumption of liability of all the obligations of its transferor or assignor under the EPSA.

Wheeling Services under the Supplemental Agreement

On June 15, 2000, HEDC, NORMIN, and NPC entered into a supplemental agreement covering the 1993 EPSAs. Under the supplemental agreement HEDC and NORMIN agreed to provide wheeling services to NPC by allowing NPC the use of certain transmission lines in transporting electricity from the points of delivery to NPC's tapping point. The term of the agreement is from March 26, 1999 to January 30, 2018.

HEDC and NORMIN shall provide to NPC the uninterrupted use of the transmission lines which shall transport the electricity generation from the Ampohaw main substation and Lower Labay main substation. HEDC and NORMIN shall, at their own cost maintain, operate, and obtain the lease, permits and road light of way for the transmission lines.

NPC shall pay HEDC and NORMIN a wheeling fee at the prevailing ERB-approved OATS rate for NPC sub-transmission as of May 2000. The wheeling fee shall be adjusted, increased or decreased, depending on the movement of the OATS rate for sub-transmission. The OATS-based wheeling fee shall be effective until such time HEDC and NORMIN are each granted their respective wheeling fee rates by the ERC. The ERC is the successor agency to the ERB and assumed all of the ERB's functions as mandated under the EPIRA.

EAUC

PSPA between EAUC (formerly Mactan Power Corporation) and Export Processing Zone Authority (now known as the PEZA)

On June 7, 1993, EAUC entered into a PSPA with PEZA, under the terms of which PEZA agreed to purchase all its electricity power requirements from EAUC.

The PSPA is for a period of 15 years from May 25, 1998, the date when the EAUC plant actually delivered power to PEZA. The PSPA is renewable upon terms and conditions mutually acceptable to both parties. If no agreement is reached, EAUC has the right of first refusal to match the terms and conditions offered by a third party except when PEZA itself decides to build, own and operate its own power plant to supply electricity to the MEPZ, or PEZA decides to procure its power requirements from NPC.

Under the terms of the PSPA, EAUC is obligated to obtain from NPC, at EAUC's own cost, stand-by back-up power supply to be supplied to in the event that EAUC is unable to meet the electricity demands of PEZA.

In consideration for the electricity delivered to PEZA, PEZA will pay EAUC at the rate of not more than 90.0% of NPC's utility rate being charged to the category of NPC customers in the Cebu Grid with comparable electric demand as PEZA, as approved by the then ERB, (now ERC) provided that NPC has realized an 8.0% return on rate base. In the event that NPC's return on rate base is lower or higher than 8.0%, then the following rates will apply: For a return on rate base of 8.5% or more — 89.0%; for 8.0% — 90.0%; for 7.5% — 91.0%; for 7.0% — 92.0%; for 6.5% — 93.0%; for 6.0% — 94.0%; for 5.5% or less — 95.0%. EAUC has agreed to grant PEZA a primary metering discount of 2.5% based on selling price.

Invoices are sent to PEZA on or before the 28th day of each month and all payments must be made to EAUC within 30 calendar days from receipt of the invoice. PEZA is obligated to establish a separate account with the Philippine National Bank for the benefit of EAUC, wherein PEZA must deposit all revenues from power sales made by PEZA to the different service and export enterprises within the MEPZ. Late payments are subject to interest at the rate of the 90-day Government treasury bill rate plus 2.0% per annum from due date until full payment is received by EAUC, but in no case shall it exceed 18.0% per annum. PEZA is entitled to a prompt payment discount of 3.0% if it pays EAUC the full amount of the invoice within 15 days after delivery of the invoice.

EAUC is responsible for the payment of real estate taxes, and any other taxes, fees, or charges of whatever nature, except as otherwise provided by law, provided that if the sale of electric power to PEZA registered enterprises become subject to any tax, then the parties must renegotiate the rate of payment for the electric power purchased by PEZA.

PEZA has the right to suspend acceptance of power deliveries from EAUC for any period of time due to: (i) zone electrical system emergency; (ii) failure of EAUC to deliver electricity in accordance with the electricity supply specifications under the PSPA for any reason whatsoever; (iii) PEZA's performance of required repairs or maintenance of its system; and (iv) in the event of force majeure. In the event of force majeure, if necessary, PEZA may order that EAUC's generating facility be disconnected from the PEZA's zone electrical equipment. PEZA must give prior prompt written notice of suspension to EAUC.

Upon 30 days written notice to PEZA, EAUC has the right to suspend delivery of electricity to PEZA for such period of time necessary for scheduled maintenance of its power plant and for emergency, environmental or safety reasons.

Either party is entitled to terminate the PSPA upon 30 days written notice if: (i) the defaulting party fails to pay any sum due from it under the PSPA within 90 days of the date when such sum is due; or (ii) the defaulting party commits a serious breach of any other terms or conditions of the PSPA and fails to take prompt action to the reasonable satisfaction of the non-defaulting party to rectify the same within 90 days after receipt of a written notice from the non-defaulting party.

Each party respectively assumes full responsibility in connection with the electric service supplied under the PSPA on its side of the metering point. Each party must indemnify the other against claims or other liabilities due to loss, or injury to persons or damage to property arising from responsibilities assumed by it when such loss, injury, or damage are solely attributable to the fault, negligence or willful misconduct of the other party. Each party is liable for all claims of its own employees under the provision of the Labor Code of the Philippines or any applicable labor or social legislation law. The liability of the parties under the PSPA does not include any indirect, punitive, incidental or consequential costs, expense or damage. EAUC and PEZA are not considered as joint venture partners or agents of the other and neither has the power to bind or obligate the other.

EAUC must post and maintain a guaranty and assurance bond callable on demand in the amount equivalent to the average monthly power sales, secured from a bonding firm acceptable to PEZA. The bond is to guarantee that EAUC will supply and deliver electricity under the PSPA in accordance with the electricity supply specifications.

PEZA may not assign or transfer its rights, benefits or obligations under the PSPA, provided that, PEZA is not prevented from merging or consolidating with any other company where the surviving entity adopts and becomes fully liable to perform PEZA's obligations under the PSPA and such merger or consolidation does not affect the validity and enforceability of the PSPA.

EAUC may not, without the consent of PEZA, transfer its obligations under the PSPA but may, for the purpose of arranging or rearranging financing for the power plant, assign or transfer to any person or corporation providing financing to the power plant all or any of its rights and benefits under the PSPA but not its obligations and PEZA must acknowledge any such assignment or transfer of which it is given notice.

On April 17, 2008, PEZA and EAUC signed an amendment to the PSPA. The salient provisions of said agreement are as follows:

(a) Amendment of the term of contract to end in April 2011 with the discretion to renew under mutually acceptable conditions.

(b) The discontinuance of the prompt payment discount on sales to PEZA.

(c) The amendment of the purchase price formula which provides for the following:

- Capacity Fee per kWh base of ₱1.1604 sensitized to the Philippine Consumer Price Index (base October 2007) multiplied by total kWh sold for the month. If PEZA purchases off-peak energy from NPC/Transco a blended formula provides that the Capacity Fee is multiplied against a minimum off take of 22,692,699 kWh. These capacity fees are meant to meet the EAUC's fixed and variable operating expenses.

- Energy Fee at 100% heavy fuel oil and lube with guaranteed consumption rates. If PEZA purchases off-peak energy from NPC/Transco, the Blended Energy Fee will be the same as the unblended but with the additional industrial diesel oil fee with guaranteed consumption rates. This enables EAUC to pass on its risks related to fuel prices.

- Other Costs - reimbursement of all government imposed expenses (Department of Energy, Transco Ancillary)

SNAP-Magat

Magat Asset Purchase and Refinancing

In a public bidding conducted by PSALM for the sale of the 360 MW Magat Hydroelectric Power Plant (the Magat Plant) located in the provinces of Isabela and Ifugao, Philippines, SNAP-Magat tendered the highest bid in the amount of US$530 million. Thereafter, SNAP-Magat executed with PSALM an Asset Purchase Agreement for the Magat Plant dated November 30, 2006.

SNAP-Magat required additional funds to finance the following: (i) prepayment of the deferred balance of the purchase price of the Magat Plant in the principal amount of US$159 million owed by SNAP-Magat to PSALM; (ii) prepayment of the principal amount of the US$159 million loan of SNAP-Magat from AEV which was used to finance SNAP-Magat's prior payment of 30.0% balance of the bid price for the Magat Plant; (iii) partial repayment of the cash advance made by the shareholders of SNAP-Magat which was used to finance SNAP-Magat's prior payment of the 40.0% down payment for the Magat Plant's bid price; and (iv) payment of certain transfer taxes related to the foregoing (collectively, the "Magat Refinancing").

The Magat Omnibus Agreement and Related Agreements

The Omnibus Agreement

On September 28, 2007, SNAP-Magat entered into an Omnibus Agreement with International Finance Corporation ("IFC"), Nordic Investment Bank ("NIB"), Banco de Oro-EPCI, Inc. ("BDO-EPCI"), Bank of the Philippine Islands ("BPI"), China Banking Corporation ("China Bank"), Development Bank of the Philippines ("DBP"), the Hong Kong and Shanghai Banking Corporation Limited ("HSBC"), Philippine National Bank ("PNB"), Security Bank Corporation ("SBC"), the Hong Kong and Shanghai Banking Corporation Limited acting through its Manila Trust Department ("HSBC-MTD"), Banco de Oro-EPCI, Inc. Trust Banking Group ("BDO-EPCI-TBG"), MORE, and SN Power Holdings Singapore PTE Ltd. ("SNPHS") to partially finance and refinance its undertaking to own, operate, maintain, rehabilitate and refurbish the 360 MW Magat Hydro Power Plant located on the island of Luzon at the border between Ramon, Province of Isabela and Alfonso Lista, Province of Ifugao (the "Magat Project").

The facility is a combination of dollar and peso term loans from a consortium of banks in the principal aggregate amount of US$380 million, comprised of: (i) the loan extended by IFC amounting to US$105 million; (ii) the loan extended by NIB amounting to US$47 million; and (iii) the loan extended by a syndicate of local commercial banks amounting to the Philippine Peso equivalent of US$228 million.

The total estimated cost of the Magat Project is the equivalent of US$542 million. In case SNAP-Magat fails to pay any principal, interest, fee or any other amount payable under the Omnibus Agreement on the due date, SNAP-Magat shall pay a default interest rate equal to the interest rate in effect with respect to the unpaid amount plus 2.0% per annum. The Omnibus Agreement consists of 11 Volumes namely: (1) the Omnibus Agreement and the Prefatory Agreement; (2) the Common Terms Agreement (the "CTA"); (3) the IFC Loan Agreement; (4) the NIB Loan Agreement; (5) the Peso Loan Agreement; (6) the Ifugao Mortgage Agreement; (7) the Isabella Mortgage Agreement; (8) New York Security Agreement; (9) the Accounts Agreement; (10) the Share Pledge Agreement; and (11) the Agency Agreement.

IFC Loan

Under the IFC Loan Agreement between SNAP-Magat and IFC (in its capacity as the Lender and IFC Facility Agent), IFC extended to SNAP-Magat a loan of up to US$105 million to partially finance the Project. If at any time SNAP-Magat fails to pay any amount of principal or interest, IFC may reduce the interest period to either 3 months or 1 month. SNAP-Magat must repay the IFC Loan in 30 equal semi-annual installments commencing on April 15, 2008 until October 15, 2022. SNAP-Magat is also obligated to pay IFC a commitment fee with respect to the IFC Loan, at the rate of 0.5% per annum on that part of the IFC Loan that has not been disbursed or cancelled, beginning August 6, 2008; a front-end fee on the

IFC Loan in the amount of US$787 million, payable prior to the disbursement date; and portfolio supervision expenses of up to US$15,000 per annum.

In case of an event of default, IFC may, by notice to SNAP-Magat, require SNAP-Magat to repay the IFC Loan or such part of the IFC Loan as is specified in the notice. If SNAP-Magat is liquidated or declared bankrupt, the IFC Loan, all accrued interest and any other amounts payable under the IFC Loan Agreement and the CTA will become immediately due and payable without need of presentment, demand, protest or notice of any kind.

NIB Loan

Under the NIB Loan Agreement between SNAP-Magat and NIB (in its capacity as the Lender and NIB Facility Agent), NIB extended to SNAP-Magat a loan of up to US$47 million to partially finance the Project. After the loan has been disbursed, the debt to equity ratio shall not be more than 70:30. The interest rate for the NIB Loan is 2.0% per annum plus LIBOR (BBA interbank offered rates for deposits in the Loan Currency that appear on the relevant page of the Reuters Service) on the interest determination date for an interest period (a period of 6 months). Interest on the NIB Loan accrues from day to day, is pro rated on the basis of a 360-day year for the actual number of days in the relevant interest period and is payable in arrears on the interest payment date immediately following the end of interest period. If at any time SNAP-Magat fails to pay any amount of principal or interest then NIB may reduce the interest period to either 3 months or 1 month. SNAP-Magat must repay the aggregate principal amount of the NIB Loan in 30 equal semi-annual instalments commencing on April 15, 2008 until October 15, 2022. In case of an event of default, NIB may require SNAP-Magat to repay the NIB Loan or such part of the NIB Loan as is specified in the notice. If SNAP-Magat is liquidated or declared bankrupt, the NIB Loan, all interest accrued on it and any other amounts payable under the NIB Loan Agreement and the CTA will become immediately due and payable without need of presentment, demand, protest or notice of any kind.

Peso Loans

Under the Peso Loan Agreement between SNAP-Magat and BDO-EPCI, BPI, China Bank, DBP, HSBC, PNB and Security Bank (collectively known as the "Peso Lenders") and BDO-EPCI-TBG (the "Peso Facility Agent"), the Peso Lenders agreed to advance to SNAP-Magat an amount of up to ₱11.5 billion. After the loan has been disbursed, the debt to equity ratio shall not be more than 70:30. Repayment of the Peso Loans must be made in 19 approximately equal semi-annual principal payments starting on the first interest payment date after September 28, 2007, with a balloon payment on the tenth anniversary of the disbursement date in an amount equal to approximately 30.0% of the total principal amount of the Peso Loans or such amount that is required to repay all outstanding amounts with respect to the Peso Loans.

SNAP-Magat must pay interest on the unpaid principal amount of the Peso Loans based on a base rate (which is based on the prevailing 10-year fixed rate treasury notes ("FXTNS") as published on the Philippine Dealing and Exchange Corporation ("PDEx") terminal or the PDST-F page of Bloomberg under the heading "Bid Yield" at about 11:30 a.m. (Manila time) plus 1.5% per annum, for each relevant interest period from the date of disbursement to SNAP-Magat until the maturity thereof. The initial interest period commences on the first disbursement date and ends on the next succeeding interest payment date and each subsequent (and successive) interest period commences upon the expiry of the immediately preceding interest period and ends on the next succeeding interest payment date, provided, that unless the Peso Loans are accelerated or repaid in full prior to October 23, 2017, the last interest period shall commence on April 16, 2017 and end on October 23, 2017, and the last interest payment date shall be October 23, 2017. SNAP-Magat must pay to the Peso Facility Agent for the benefit of the Peso Lenders, a commitment fee in Pesos at the rate of 0.5% per annum on the undrawn and uncancelled portion of the total commitment from September 28, 2007 until the full disbursement of the total commitment unless otherwise cancelled in accordance with the Peso Loan Agreement.

Restricted Payments

The CTA provides that SNAP-Magat is prohibited from making any restricted payments ("Restricted Payments") until all its obligations owed to the Secured Parties under the Omnibus Agreement are paid in full. Restricted Payments mean (i) declaration or payment of any dividend or distribution on the SNAP-Magat's capital stock, (ii) any purchase, redemption or acquisition of any equity interests of SNAP-Magat or any option over them or (iii) any other payment of any kind to any affiliate of SNAP-Magat, other than payments under the Permitted Affiliate Contracts and any payment funded by SNAP-Magat from amounts on deposit in the non-collateral account. However, SNAP-Magat may make restricted payments if the following conditions are present: (i) SNAP-Magat has complied with the requirements of Section 7.01(n) of the CTA (the requirements are: SNAP-Magat must: (i) Use its best efforts to work with PSALM and execute the Deed of Absolute Sale, as soon as practicable following the Phase I disbursement date and, in any event, not later than thirty (30) days after the Phase I disbursement date; (ii) not later than the Purchased Assets Mortgage Supplement Date, execute, acknowledge and deliver the Purchased Assets Mortgage Supplement to the Onshore Collateral Trustee; and (iii) not later than the Purchased Assets Mortgage Supplement Date, (a) register in the applicable Registry, the Deed of Absolute Sale and Purchased Assets Mortgage Supplement, (b) provide evidence thereof to each Facility Agent, which shall be in form and substance satisfactory to each Lender, and (c) otherwise take such other actions necessary or as may be requested by any Facility Agent to perfect the liens created under the Purchased Assets Mortgage Supplement.); (ii) if such Restricted Payment is in the form of dividends, such dividends are paid out of SNAP-Magat's retained earnings; (iii) the Prospective Debt Service Coverage Ratio equals or exceeds 1.2:1.0; (iv) no material dispute exists between SNAP-Magat and the Facility Agents with respect to Clause G or H of Annex C of the CTA on Insurance Requirements; (v) prior to and after giving effect to such payment or transfer of funds: (a) no event of default or potential event of default shall have occurred and be continuing; (b) the aggregate balance standing to the credit of each reserve account, or the aggregate undrawn amounts of any reserve letters of credit delivered to the Onshore Collateral Trustee in respect of such reserve account, or any combination thereof shall equal or exceed the then-applicable reserve requirement for such reserve account; (c) the repeating representations shall be true and correct as if made on the date of the relevant transfer or payment; and (d) any tax reserve required to be established by the terms hereof or accounting principles shall have been retained (1) on and prior to disbursement date, in the distribution account or in such other account as may be agreed by each Facility Agent; (vi) such payment is made within 30 days after an interest payment date; and (vii) SNAP-Magat, no earlier than 60 days nor later than 30 days prior to doing so, has delivered a certificate as to the aforementioned conditions.

Security Arrangements

Under (i) the Ifugao Mortgage Agreement between SNAP-Magat and BDO-EPCI-TBG (the "Onshore Collateral Trustee"); (ii) the Isabella Mortgage Agreement between SNAP-Magat and the Onshore Collateral Trustee; (iii) the Security and Assignment Agreement (the "New York Security Agreement") between SNAP-Magat, the Onshore Collateral Trustee and HSBC (the "Offshore Collateral Trustee"); (iv) the Assignment Agreement between SNAP-Magat and HSBC-PTD (the "Accounts Trustee"); and (v) the Accounts and Trust Agreement among SNAP-Magat, the Offshore Collateral Trustee, the Onshore Collateral Trustee, BDO-EPCI (the "Account Bank") and the Accounts Trustee, SNAP-Magat absolutely and unconditionally assigned its right to receive monies under certain contracts, and mortgaged and granted a security interest in SNAP-Magat's other right, title and interest in, to and under all of its property and assets to the Offshore Collateral Trustee, the Onshore Collateral Trustee and the Accounts Trustee for the benefit of the lenders, the Facility Agents, the Offshore Collateral Trustee, the Onshore Collateral Trustee, the Accounts Trustee, the Account Bank, and the hedge providers (the "Secured Parties") to secure, among other things, the obligations of SNAP-Magat to the Secured Parties under the Omnibus Agreement (the "Obligations").

Under the Pledge Agreement among MORE and SN Power Singapore (the "Shareholders") and the Offshore Collateral Trustee, each of the Shareholders granted to the Offshore Collateral Trustee for the benefit of the Secured Parties, a security interest in their respective rights, title and interest in and to, among others, SNAP-Magat's capital stock, to secure, among other things, the Obligations.

Under the Agency and Trust Agreement among SNAP-Magat, the lenders, the Facility Agents, the Offshore and Onshore Collateral Trustees and the Accounts Trustee, each of the Collateral Trustees and the Accounts Trustee have been appointed to undertake their respective functions under the financing documents.

Share Retention Agreements

On September 28, 2007, AEV, AP, MORE, SNAP-Magat, and HSBC as the Offshore Collateral Trustee, entered into a Share Retention Agreement whereby, the parties agreed that as long as any amount of the loans under the Ominbus Agreement remain available for disbursement by the lenders and until all the Obligations have been indefeasibly paid and performed in full: (i) AP shall, together with SN Power Singapore, maintain not less than 50.1% of the capital stock, related voting rights of SNAP-Magat and economic ownership interests in SNAP-Magat and shall otherwise maintain control of SNAP-Magat; (ii) AEV shall maintain not less than 50.1% of the capital stock, related voting rights of AP and economic ownership interests in AP; (iii) AP shall maintain not less than 50.1% of the capital stock, related voting rights of MORE and economic ownership interests in MORE; (iv) MORE shall maintain directly not less than 60.0% of the capital stock and related voting rights of SNAP-Magat and the economic ownership interests in SNAP-Magat; (v) SNAP-Magat, AEV, AP, and MORE (each a "Restricted Party") shall not transfer any of the capital stock, related voting rights or the economic ownership interest in another Restricted Party and each Restricted Party shall exercise all of its voting rights or economic ownership interests.

The parties agreed that the payment of all indebtedness of SNAP-Magat to either AEV, AP, and MORE (collectively referred to as the "Subordinated Parties") is subject to the prior payment and performance in full of the Obligations (the "Subordinated Indebtedness"), except where funds are available in the non-collateral account and in the distribution account. In the event that any Subordinated Party receives on account of any Subordinated Indebtedness any payment or distribution of assets of SNAP-Magat, to which the latter is not entitled to, such amount shall be held in trust for the benefit of the Secured Parties and shall immediately be paid over to the Offshore Collateral Trustee. It was agreed that in case of any insolvency proceedings with respect to SNAP-Magat, all the Obligations shall first be paid and performed.

It was also agreed that the Subordinated Party cannot, without the prior written consent of the Offshore Collateral Trustee, dispose of any of the Subordinated Indebtedness or amend its terms or subordinate the same to any party that is not a Secured Party. The obligations of each Subordinated Party continues to be effective or shall be reinstated if the payment of the Obligations is rescinded, reduced in amount, restored or returned by the holder of such Obligations. None of the Restricted Parties may assign their rights or obligations under this agreement without the prior written consent of each Facility Agent. The Share Retention Agreement automatically terminates upon full payment or performance of all the Obligations.

On September 28, 2007, SN Power, SN Power Singapore, MORE, SNAP-Magat, and HSBC as the Offshore Collateral Trustee entered into a Share Retention Agreement whereby the parties agreed that as long as any amount of the loans under the Omnibus Agreement remain available for disbursement by the lenders and until all the Obligations have been paid and performed in full: (i) SN Power Singapore shall, together with AP, maintain not less than 50.1% of the capital stock, related voting rights of SNAP-Magat and economic ownership interests in SNAP-Magat and shall otherwise maintain control of SNAP-Magat; (ii) MORE shall maintain not less than 60.0% of the capital stock, related voting rights of SNAP-Magat and economic ownership interests in SNAP-Magat and shall otherwise maintain control of SNAP-Magat; (iii) SN Power Norway shall maintain not less than 50.1% of the capital stock, related voting rights of SN Power Singapore and economic ownership interests in SN Power Singapore and shall otherwise maintain control of SN Power Singapore; (iv) SN Power shall maintain not less than 16.0% of the capital stock and related voting rights of MORE and economic ownership interests in MORE and 40.0% of the capital stock and related voting rights of SNAP-Magat and economic interest in SNAP-Magat; and (v) No Restricted Party shall transfer any of the capital stock, related voting rights or the economic ownership interest in another restricted party and each restricted party shall exercise all of its voting rights or economic ownership interests. In the event that any Subordinated Party receives any payment or distribution of

assets of SNAP-Magat that it is not entitled to receive, such amount shall be held in trust for the benefit of the Secured Parties and shall be immediately paid over to the Onshore Collateral Trustee. In case of any insolvency proceedings, all the Obligations shall first be paid and performed. Any Secured Party may, at any time without notice or demand, change the time, place or manner for payment and performance or terms of the Obligations, hold security for the payment of the Obligations and exchange, enforce, waive and release the Security, apply the Security and direct the order or manner of sale and release or substitute any of the endorsers or guarantors. The consent of the Onshore Collateral Trustee is required in the disposition of the Subordinated Indebtedness, subordination to any party other than the Secured Parties and amendment of any of the terms of the Subordinated Indebtedness. The obligations of each Subordinated Party shall continue to be effective, if the payment of the Obligations is rescinded, reduced, restored or returned by the holder of such Obligations. Similarly, the agreement shall remain in full force and effect notwithstanding the occurrence of any insolvency proceeding affecting SNAP-Magat. The agreement shall terminate on the date that all of the Obligations have been indefeasibly discharged in full.

On September 28, 2007, SNAP-Magat entered into a Subordination Agreement with BDO-EPCI-TBG (the "Onshore Collateral Trustee"), MORE, and SN Power Singapore. MORE and SN Power Singpore, including future holders of the indebtedness under the agreement (the "Subordinated Parties"), have entered into certain Subordinated Indebtedness documents with SNAP-Magat in the aggregate amount of up to US$62.6 million. The parties agreed that the payment of any and all indebtedness shall be subordinated to the prior payment and performance in full of the Obligations. The Subordinated Indebtedness may be paid by SNAP-Magat in a single payment after disbursement date. In the event that any Subordinated Party receives any payment or distribution of assets of SNAP-Magat that it is not entitled to receive, such amount shall be held in trust for the benefit of the Secured Parties and shall be immediately paid over to the Onshore Collateral Trustee. In case of any insolvency proceedings, all the Obligations must first be paid and performed. Any Secured Party may, at any time without notice or demand, change the time, place or manner for payment and performance or terms of the Obligations, hold security for the payment of the Obligations and exchange, enforce, waive and release the Security, apply the Security and direct the order or manner of sake and release or substitute any of the endorsers or guarantors. The consent of the Onshore Collateral Trustee is required in disposition of the Subordinated Indebtedness, subordination to any party other than the Secured Parties and amendment of any of the terms of the Subordinated Indebtedness. The obligations of each Subordinated Party shall continue to be effective, if the payment of the Obligations is rescinded, reduced, restored or returned by the holder of such Obligations. Similarly, the agreement shall remain in full force and effect notwithstanding the occurrence of any insolvency proceeding affecting SNAP-Magat. The agreement shall terminate on the date that all of the Obligations have been indefeasibly discharged in full.

ISDA 2002 Master Agreement and Schedule to the 2002 Master Agreement

Hong Kong and Shanghai Banking Corporation Limited (acting through its Manila branch) ("Party A") and SN Aboitiz Power-Magat, Inc. ("Party B") have entered into and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by the 2002 Master Agreement dated as of November 29, 2007 (the "Master Agreement"), which includes the schedule dated as of November 29, 2007 (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties or otherwise effective for the purpose of confirming or evidencing those Transactions.

All Transactions are entered into in reliance on the fact that the Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as the "Agreement"), and the parties would not otherwise enter into any Transactions.

Further, any FX transactions and/or currency option transactions between the parties which are outstanding at the date the Agreement becomes effective and unless otherwise agreed in writing by the parties, any FX transactions or currency option transactions entered into between the parties after the effective date of the Agreement are governed by the terms of and form part of the Agreement.

For the Transactions covered by the Agreement, each party is obligated to make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of the Agreement. Further, each obligation of each party is subject to (1) the condition precedent that no event of default or potential event of default as defined in the Master Agreement with respect to the other party has occurred and is continuing, (2) the condition precedent that no early termination date as defined in the Master Agreement and Schedule in respect of the relevant Transaction has occurred or been effectively designated and (3) each other condition specified in the Agreement to be a condition precedent.

A party shall be considered to be in default if (1) it fails to pay or deliver as required, (2) it fails to comply with or perform any agreement or obligation in accordance with the Agreement, (3) it disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, the Master Agreement, any Confirmation or any Transaction, (4) a representation made or repeated or deemed to have been made or repeated by the party proves to have been incorrect or misleading in any material respect, (5) the party defaults in any Specified Transaction, as defined below, (6) there is an occurrence or existence of a default, event of default or other similar condition or event under one or more agreements or instruments relating to a Specified Indebtedness of the party (i.e., any obligation, whether present or future, contingent or otherwise, as principal or surety or otherwise, in respect of borrowed money, except those obligations in respect of deposits received in the ordinary course of a party's banking business) where the aggregate principal amount of such agreements or instruments is not less than the applicable threshold amount (i.e., in the case of Party A, US$10 million and in the case of Party B, US$4 million or the equivalent in any other currency or currencies), (7) it becomes bankrupt as provided in the Master Agreement, or (8) it merges or consolidates with, or transfers all or substantially all of its assets to, another entity, which fails to assume all the obligations of such party. A Specified Transaction refers to any of the following: (a) any transaction (including an agreement with respect to any such transaction) now existing or hereafter entered into between one party to the Agreement and the other party to the Agreement which is not a Transaction under the Agreement but (i) which is a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, securities lending transaction, weather index transaction or forward purchase or sale of a security, commodity or other financial instrument or interest (including any option with respect to any of these transactions) or (ii) which is a type of transaction that is similar to any transaction referred to in clause (i) above that is currently, or in the future becomes, recurrently entered into in the financial markets (including terms and conditions incorporated by reference in such agreement) and which is a forward, swap, future, option or other derivative on one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, economic indices or measures of economic risk or value, or other benchmarks against which payments or deliveries are to be made, (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in the Agreement or the relevant Confirmation.

The Agreement is governed by English law. Each party also irrevocably waives, to the extent permitted by law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (1) suit, (2) jurisdiction of any court, (3) relief by way of injunction or order for specific performance or recovery of property, (4) attachment of its assets (whether before or after judgment) and (5) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

The Agreement covers the Interest Rate Swap transactions between HSBC and SNAP-Magat.

Magat Offtake Agreements

When the Magat plant was turned over to SNAP-Magat on April 26, 2007, SNAP-Magat assumed the following offtake agreements entered into by NPC and the NIA. In each of the following summaries, all references to NPC should be considered as a reference to SNAP-Magat:

Contract for the Supply of Electric Energy between NPC and NIA-MPIS/MAGAPIT

On June 26, 2005, NIA-MPIS/MAGAPIT and NPC entered into a contract for the supply of electric energy ("NIA-MPIS/MAGAPIT Supply Contract"). NPC uses a standard contract form, the Contract for the Supply of Electric Energy, which was reviewed and approved by the ERC as a transition supply contract between NPC and its customers. The terms of the NIA-MPIS/MAGAPIT Supply Contract are substantially the same as the supply contracts DLPC and other distribution utilities have with NPC.

The Basic Energy Charge for consumption within the contracted level is the ERC-approved generation rate and other adjustment charges, such as, fuel and purchased power costs and foreign exchange. Prior to the commercial operation of the WESM, for consumption higher than 110.0% of the contracted energy level, the basic energy charge to be applied is the prevailing ERC approved rate and other adjustments plus 20.0% of such rate for the incremental increase beyond 110.0% of the contracted energy. Upon the commercial operation of the WESM, the basic energy charge to be applied to the contracted energy shall be in accordance with the price settlement mechanism of the NIA-MPIS/MAGAPIT Supply Contract during the operation of the WESM.

Under the terms of the Supply Contract, NIA-MPIS/MAGAPIT shall pay a minimum charge based on the contracted energy per billing period using the basic energy charge even if it has not fully taken or failed to consume the contracted energy, subject to deductions and adjustments as expressly provided for in the NIA-MPIS/MAGAPIT Supply Contract.

Should the supply of electricity be interrupted or curtailed to a level below the contracted energy due to the fault or lack of generation capacity of the NPC, even if NIA-MPIS/MAGAPIT was at that time unable to take or consume electricity, the contracted energy shall be adjusted taking into account the ratio of the number of hours that electric service was interrupted to the total number of hours in the billing period. Contracted energy not taken due to NIA-MPIS/MAGAPIT's fault or negligence or other causes affecting its ability to take or consume electricity shall not entitle it to interruption adjustments.

NIA-MPIS/MAGAPIT may avail of service adjustment in the contracted energy during the scheduled maintenance of its facilities, provided that such adjustments do not apply to more than two billing periods in one year. The minimum charge on the energy consumption is 50.0% of the contracted energy. To be able to avail of this adjustment, NIA-MPIS/MAGAPIT must inform NPC in writing 30 days prior to the commencement of the scheduled maintenance.

Disputed bills should be questioned in writing by NIA-MPIS/MAGAPIT within 60 days from the date of its receipt and such claims should be resolved within 60 days from the date of its filing. Failure by NIA-MPIS/MAGAPIT to question the power bills on time shall constitute a waiver by NIA-MPIS/MAGAPIT of any claim on such bills. Disputed bills are required to be paid by NIA-MPIS/MAGAPIT without deductions or offsets and NPC shall evaluate the claim and adjust the billings in accordance with its findings. NIA-MPIS/MAGAPIT is entitled to a refund of any overpayment plus interest equivalent to the 91-day T-Bill rate from the date that the payment was made, if NIA-MPIS/MAGAPIT's claim is found to be meritorious.

In the event that a power bill remains unpaid within five days after its due date, NPC has the option to call on or draw against the security deposit delivered by NIA-MPIS/MAGAPIT under the terms of the NIA-MPIS/MAGAPIT Supply Contract. Any power bill or account of NIA-MPIS/MAGAPIT not paid on due date shall bear a floating rate of interest, based on the non-prime lending rate of certain reference banks. If the account of NIA-MPIS/MAGAPIT is overdue for more than six months, NIA-MPIS/MAGAPIT shall pay an additional penalty of 1.0% per month for every additional month of delay beyond six months.

In addition to the penalty interest charges and without prejudice to its right to terminate the agreement, NPC shall have the right, subject to not less than seven days advance written notice to NIA-MPIS/MAGAPIT, to discontinue supplying electric services and to refuse to resume electric service for failure of NIA-MPIS/MAGAPIT to post the required security deposit, for non-payment of bills, or if any amount including any accrued interest and other charges not necessarily limited to the foregoing, remains unpaid. Notwithstanding such discontinuance of electric service, NIA-MPIS/MAGAPIT shall pay at least the minimum charge based on the contracted energy, and its failure to make full payment within a period of six months shall entitle NPC to terminate the NIA-MPIS/MAGAPIT Supply Contract without prejudice to NPC's right to recover unpaid bills and other penalties.

Either party has the right to terminate the NIA-MPIS/MAGAPIT Supply Contract upon failure of the other to perform its obligation under the NIA-MPIS/MAGAPIT Supply Contract, provided that the party at fault will have to pay all its outstanding accounts and reimburse the costs incurred by the other party as a result of the termination.

Contract for the Supply of Electric Energy between NPC and NIA-IAAPIS/AMULUNG

On June 26, 2005, NIA-CAUAYAN and NPC entered into a contract for the supply of electric energy ("NIA-CAUAYAN Supply Contract"). NPC uses a standard contract form, the Contract for the Supply of Electric Energy, which was reviewed and approved by the ERC as a transition supply contract between NPC and its customers. The terms of the contract are substantially the same as the supply contracts as those of DLPC and other distribution utilities have with NPC.

Under the NIA-CAUAYAN Supply Contract, NPC will supply NIA-CAUAYAN with electricity for a period of 5 years from June 26, 2005. The NIA-CAUAYAN Supply Contract stipulates that the provisions thereof will be deemed modified by the applicable WESM Rules, upon commercial operation of the WESM, as declared by the DOE.

The contracted energy allocated by NPC to NIA-CAUAYAN within the contract period shall not be altered by either party, except in the cases provided for in the contract. The contracted energy for the entire term is based on actual demand.

The terms and conditions of the NIA-CAUAYAN Supply Contract are substantially the same as those in the NIA-MPIS/MAGAPIT Supply Contract.

Contract for the Supply of Electric Energy between NPC and NIA-SOLANA/ENRILE

On June 26, 2005, NIA-SOLANA/ENRILE and NPC entered into a contract for the supply of electric energy ("NIA-SOLANA/ENRILE Supply Contract"). NPC uses a standard contract form, the Contract for the Supply of Electric Energy, which was reviewed and approved by the ERC as a transition supply contract between NPC and its customers. The terms of the contract are substantially the same as the supply contracts as those of DLPC and other distribution utilities have with NPC.

Under the NIA-SOLANA/ENRILE Supply Contract, NPC will supply NIA-SOLANA/ENRILE with electricity for a period of 5 years from June 26, 2005. The NIA-SOLANA/ENRILE Supply Contract stipulates that the provisions thereof will be deemed modified by the applicable WESM Rules, upon commercial operation of the WESM, as declared by the DOE.

The contracted energy allocated by NPC to NIA-SOLANA/ENRILE within the contract period shall not be altered by either party, except in the cases provided for in the contract. The contracted energy for the entire term is based on actual demand.

The terms and conditions of the NIA-SOLANA/ENRILE Supply Contract are substantially the same as those in the NIA-MPIS/MAGAPIT Supply Contract.

Contract for the Supply of Electric Energy between NPC and NIA-ILAGAN

On June 26, 2005, NIA-ILAGAN and NPC entered into a contract for the supply of electric energy ("NIA-ILAGAN Supply Contract"). NPC uses a standard contract form, the Contract for the Supply of Electric Energy, which was reviewed and approved by the ERC as a transition supply contract between NPC and its customers. The terms of the contract are substantially the same as the supply contracts as those of DLPC and other distribution utilities have with NPC.

Under the NIA-ILAAN Supply Contract, NPC will supply NIA-ILAGAN with electricity for a period of five years from June 26, 2005. The NIA-ILAGAN Supply Contract stipulates that the provisions thereof will be deemed modified by the applicable WESM Rules, upon commercial operation of the WESM, as declared by the DOE.

The contracted energy allocated by NPC to NIA-ILAGAN within the contract period shall not be altered by either party, except in the cases provided for in the contract. The contracted energy for the entire term is based on actual demand.

The terms and conditions of the NIA-ILAGAN Supply Contract are substantially the same as those in the NIA-MPIS/MAGAPIT Supply Contract.

SNAP-Benguet

Ambuklao-Binga Asset Purchase and Refinancing

In a public bidding conducted by PSALM for the sale of the 175 MW Ambuklao-Binga Hydroelectric Power Complex ("Ambuklao-Binga"), consisting of the (i) 75 MW Ambuklao Hydroelectric Power Plant located in Bokod, Benguet and the (ii) 100MW Binga Hydroelectric Plant located in Itogon, Benguet, SNAP-Benguet tendered the highest bid in the amount of US$325 million. Thereafter, SNAP-Benguet executed with PSALM an Asset Purchase Agreement for Ambuklao-Binga ("Ambuklao-Binga APA"), which took effect on December 27, 2007. The Ambuklao-Binga APA contains the terms and conditions for (a) the purchase of Ambuklao-Binga, and (b) the undertaking of SNAP-Benguet to own, operate, maintain, rehabilitate and refurbish Ambuklao-Binga. On July 10, 2008, the Ambuklao-Binga plants were officially turned over by PSALM to SNAP-Benguet.

SNAP-Benguet obtained a loan from AP amounting to US$97 million to partially finance the purchase price of the Ambuklao-Binga Plants (the "AP Loan"). SNAP-Benguet required additional funds to refinance the AP Loan, including principal amounts and applicable transfer taxes, pay the outstanding obligations of SNAP-Benguet to PSALM under the Ambuklao-Binga APA, and fund the Ambuklao-Binga project (collectively, the "Ambuklao-Binga Refinancing").

The Ambuklao-Binga Omnibus Agreement and Related Agreements

The Omnibus Agreement

On August 6, 2008, SNAP-Benguet entered into an Omnibus Agreement with IFC, NIB, Banco de Oro Unibank, Inc. ("BDO"), Bank of the Philippine Islands ("BPI"), Bank of the Philippine Islands, acting through its Asset Management and Trust Group ("BPI-AMTG"), China Banking Corporation ("China Bank"), Development Bank of the Philippines ("DBP"), Philippine National Bank ("PNB"), Security Bank Corporation ("SBC"), the Hong Kong and Shanghai Banking Corporation Limited, Philippine Trust Department ("HSBC-PTD"), Banco De Oro Unibank, Inc., Trust and Investments Group ("BDO-TIG"), Hong Kong and Shanghai Banking Corporation Limited ("HSBC"), MORE, and SN Power Holdings Singapore PTE Ltd. ("SN Power Singapore ") to partially finance its undertaking to acquire, own, operate, maintain, rehabilitate and refurbish the Ambuklao-Binga project.

The facility is a combination of dollar and peso term loans from a consortium of banks in the principal aggregate amount of US$375 million comprised of: (i) the senior loan dollar tranche amounting to

US$145 million, consisting of US$85 million extended by IFC, and US$60 million extended by NIB; (ii) the senior loan peso tranche amounting to the Philippine Peso equivalent of US$215 million, extended by a syndicate of local commercial banks; and (iii) the subordinated loan amounting to US$15 million, extended by IFC.

The total estimated cost of the Ambuklao-Binga project is the equivalent of US$647 million. In case SNAP-Benguet fails to pay any principal, interest, fee or any other amount payable under the Omnimus Agreement on the due date, SNAP-Benguet shall pay a default interest rate equal to the interest rate in effect with respect to the unpaid amount plus 2.0% per annum. The Omnibus Agreement consists of 12 volumes namely: (1) the Omnibus Agreement and the Prefatory Agreement; (2) the Common Terms Agreement (the "CTA"); (3) the IFC Loan Agreement; (4) the NIB Loan Agreement; (5) the Peso Loan Agreement; (6) the IFC C Loan Agreement; (7) the Mortgage Agreement; (8) the Security and Assignment Agreement; (9) the Assignment Agreement; (10) the Accounts and Trust Agreement; (11) the Pledge Agreement; and the (12) Agency and Trust Agreement.

IFC Loan

Under the IFC Loan Agreement between SNAP-Benguet and IFC (in its capacity as the Lender and IFC Facility Agent), IFC extended to SNAP-Benguet a loan of up to US$85 million to partially finance the Project. After the loan has been disbursed, the debt to equity ratio shall not be more than 70:30. The interest rate for the IFC Loan is 2.0% per annum plus LIBOR (BBA interbank offered rates for deposits in the loan currency that appear on the relevant page of the Reuters Service) on the interest determination date for an interest period (a period of 6 months). Interest on the IFC Loan accrues from day to day, is pro rated on the basis of a 360-day year, and is payable in arrears on the interest payment date immediately following the end of an interest period. If at any time SNAP-Benguet fails to pay any amount of principal or interest, IFC may reduce the interest period to either 3 months or 1 month. SNAP-Benguet must repay the aggregate principal amount of the IFC Loan outstanding on the date immediately preceding the first repayment date on January 10, 2011 in 32 approximately equal semi-annual installments commencing on January 10, 2011 and until the final maturity date on July 10, 2026. SNAP-Benguet must pay to IFC a commitment fee with respect to the IFC Loan, at the rate of 0.5% per annum on the portion of the IFC Loan that has not been disbursed or cancelled, beginning August 6, 2008; pro rated on the basis of a 360-day year for the actual number of days elapsed; and payable semi-annually, in arrears, on each interest payment date in each calendar year. SNAP-Benguet must also pay IFC a front-end fee on the IFC Loan of US$637,000, to be paid prior to the disbursement date, and portfolio supervision expenses of up to US$15,000 per annum.

In case of an event of default, IFC may, by notice to SNAP-Benguet require SNAP-Benguet to repay the IFC Loan or such part of the IFC Loan as is specified in the notice. If SNAP-Benguet is liquidated or declared bankrupt, the IFC Loan, all interest accrued on it and any other amounts payable under the IFC Loan Agreement and the CTA will become immediately due and payable without need of presentment, demand, protest or notice of any kind.

NIB Loan

Under the NIB Loan Agreement between SNAP-Benguet and NIB (in its capacity as Lender and NIB Facility Agent), NIB extended to SNAP-Benguet a loan of up to US$60 million to partially finance the Ambuklao-Binga Project. After the loan has been disbursed, the debt to equity ratio shall not be more than 70:30. The interest rate for the NIB Loan is 2.0% per annum plus LIBOR (BBA interbank offered rates for deposits in the Loan Currency that appear on the relevant page of the Reuters Service) on the interest determination date for an interest period (a period of 6 months). Interest on the NIB Loan accrues from day to day, is pro rated on the basis of a 360-day year for the actual number of days in the relevant interest period and is payable in arrears on the interest payment date immediately following the end of interest period. If at any time SNAP-Benguet fails to pay any amount of principal or interest on the NIB Loan then NIB may reduce the interest period to either 3 months or 1 month. SNAP-Benguet must repay the aggregate principal amount of the NIB Loan outstanding on the date immediately preceding the first repayment date on January 10, 2011, in 32 approximately equal semi-annual instalments commencing on

January 10, 2011 until the final maturity date on July 10, 2026. SNAP-Benguet must pay NIB a commitment fee with respect to the NIB Loan, at the rate of 0.5% per annum on the portion of the NIB Loan that has not been disbursed or cancelled, beginning on August 6, 2008, pro rated on the basis of a 360-day year for the actual number of days elapsed and payable semi-annually in arrears on each interest payment date in each calendar year. SNAP-Benguet must also pay NIB a front-end fee on the NIB Loan of US$450,000, to be paid prior to the first disbursement date. In case of an event of default, NIB may require SNAP-Benguet to repay the NIB Loan or such part of the NIB Loan as is specified in the notice. If SNAP-Benguet is liquidated or declared bankrupt, the NIB Loan, all interest accrued on it and any other amounts payable under the NIB Loan Agreement and the CTA will become immediately due and payable without need of presentment, demand, protest or notice of any kind.

Peso Loans

Under the Peso Loan Agreement between SNAP-Benguet and BDO, BPI, BPI-AMTG, China Bank, DBP, PNB and Security Bank (collectively known as the "Peso Lenders") and BDO (the "Peso Facility Agent"), the Peso Lenders agreed to advance to SNAP-Benguet an amount of up to the Peso equivalent of US$147.73 million ("Phase I Commitment") and an amount equal to the Peso equivalent of US$215 million less the Dollar equivalent of the Peso amount drawn from the Phase I Commitment ("Phase II Commitment") for a total commitment of up to US$215 million, provided that the total commitment shall not exceed ₱10.32 billion. After the loan has been disbursed, the debt to equity ratio shall not be more than 70:30. Repayment of the Peso Loans must be made in nineteen (19) approximately equal semi-annual principal payments starting on the first interest payment date after the second anniversary of the Phase I disbursement date, with a balloon payment on the twelfth anniversary of the disbursement date in an amount equal to approximately 30.0% of the total principal amount of the Peso Loans or such amount as is required to repay all outstanding amounts with respect to the Peso Loans.

For the Phase I disbursement, SNAP-Benguet must pay interest on the unpaid principal amount of the Peso Loans based on a base rate (the "Phase I Base Rate") which is based on the prevailing 7-year fixed rate treasury notes ("FXTNS") as published on the Philippine Dealing and Exchange Corporation ("PDEx") terminal or the PDST-F page of Bloomberg under the heading "Bid Yield" at about 11:30 a.m. (Manila time) and determined 2 business days before the Phase I disbursement date) plus 1.5% per annum, for each relevant interest period from the date of disbursement to SNAP-Benguet until the maturity thereof. Similarly, for the Phase II disbursement, SNAP-Benguet must pay interest on the unpaid principal amount based on a base rate (the "Phase II Base Rate" which is based on the interpolated benchmark, using straight line interpolation, of the prevailing 5-year and 7-year FXTNS as published on the PDEx terminal or the PDST-F page of Bloomberg under the heading "Bid Yield" at about 11:30 a.m. (Manila time) plus 1.5% per annum, for each relevant interest period from the date of disbursement to SNAP-Benguet until the maturity thereof. The initial interest period commences on the first disbursement date and ends on the next succeeding interest payment date and each subsequent (and successive) interest period commences upon the expiry of the immediately preceding interest period and ends on the next succeeding interest payment date, provided, that unless the Peso Loans are accelerated or repaid in full prior to January 10, 2020, the last interest period shall commence on July 11, 2019 and end on January 10, 2020, and the last interest payment date shall be January 10, 2020. SNAP-Benguet must pay to the Peso Facility Agent for the benefit of the Peso Lenders, a commitment fee in Pesos at the rate of 0.5% per annum on the undrawn and uncancelled portion of the total commitment from August 6, 2008 until the full disbursement of the total commitment unless otherwise cancelled in accordance with the Peso Loan Agreement.

IFC Subordinated Loan

Under the IFC Loan Agreement between SNAP-Benguet and IFC, IFC agreed to lend SNAP-Benguet the amount of US$15 million. The interest rate for the IFC Subordinated Loan is equal to the higher of (i) the product of 2.26% and EBITDA for the immediately preceding Financial Year and (ii) the product of (x) LIBOR determined as of the IFC Loan interest calculation date for such interest period for twelve (12) months rounded upward to the nearest three (3) decimal places and (y) the amount of the IFC Loan outstanding on such IFC Loan interest calculation date. SNAP-Benguet is required to repay the entire

loan then outstanding on January 10, 2021. Any principal amount of the loan repaid under this agreement may not be re-borrowed. SNAP-Benguet is required to pay IFC a commitment fee of 0.5% per annum on the portion of the loan that has not been disbursed or cancelled as of the date of calculation, pro-rated on the basis of a 360-day year for the actual number of days elapsed, and payable semi-annually in arrears on each interest payment date. A front-end fee of US$112,500 must also be paid by SNAP-Benguet on or before the disbursement date. In case of default, IFC may require SNAP-Benguet to pay the loan, including interest and any other amounts then payable. In the event that SNAP-Benguet is liquidated or bankrupt or voluntary files for such or any similar proceedings, the loan including all other payable amounts shall be immediately due without need for presentment, protest or notice. The IFC Subordinated Loan Agreement is governed by the laws of the State of New York and any action or legal proceeding may be brought in the courts of the State of New York or the courts of the Philippines.

Restricted Payments

The CTA provides that SNAP-Benguet is prohibited from making any restricted payments ("Restricted Payments") until all its obligations owed to the Secured Parties under the Omnibus Agreement are paid in full. Restricted Payments mean (i) declaration or payment of any dividend or distribution on the SNAP-Benguet's capital stock, (ii) any purchase, redemption or acquisition of any equity interests of SNAP-Benguet or any option over them or (iii) any other payment of any kind to any affiliate of SNAP-Benguet, other than payments under the Permitted Affiliate Contracts and any payment funded by SNAP-Benguet from amounts on deposit in the non-collateral account; provided, however, that, (a) if as a consequence of the making of a special Sponsor advance the Debt to Equity Ratio is less than 70:30; and (b) no other deficiency has then occurred, reimbursement of that portion of such special Sponsor advance with proceeds from a Phase II disbursement during the availability period in order to restore the Debt to Equity Ratio to 70:30 is not considered as a restricted payment.

However, SNAP-Benguet may make restricted payments if the following conditions are present: (i) SNAP-Benguet has complied with the requirements of Section 7.01(m) of the CTA (the requirements are: SNAP-Benguet must: (i) Use its best efforts to work with PSALM and execute the Deed of Absolute Sale, as soon as practicable following the Phase I disbursement date and, in any event, not later than thirty (30) days after the Phase I disbursement date; (ii) not later than the Purchased Assets Mortgage Supplement Date, execute, acknowledge and deliver the Purchased Assets Mortgage Supplement to the Onshore Collateral Trustee; and (iii) not later than the Purchased Assets Mortgage Supplement Date, (a) register in the applicable Registry, the Deed of Absolute Sale and Purchased Assets Mortgage Supplement, (b) provide evidence thereof to each Facility Agent, which shall be in form and substance satisfactory to each Lender, and (c) otherwise take such other actions necessary or as may be requested by any Facility Agent to perfect the liens created under the Purchased Assets Mortgage Supplement.); (ii) if such Restricted Payment is in the form of dividends, such dividends are paid out of SNAP-Benguet's retained earnings; (iii) the Prospective Debt Service Coverage Ratio equals or exceeds 1.2:1.0; (iv) no material dispute exists between SNAP-Benguet and the Facility Agents with respect to Sections (I)(C) and (I)(F) in the "Operational Phase" section of Annex C (Insurance Requirements) of the CTA; (v) prior to and after giving effect to such payment or transfer of funds: (a) no event of default or potential event of default shall have occurred and be continuing; (b) the aggregate balance standing to the credit of each reserve account, or the aggregate undrawn amounts of any reserve L/Cs delivered to the Onshore Collateral Trustee in respect of such reserve account, or any combination thereof shall equal or exceed the then-applicable reserve requirement for such reserve account; (c) the repeating representations shall be true and correct as if made on the date of the relevant transfer or payment; and (d) any tax reserve required to be established by the terms hereof or accounting principles shall have been retained (1) on and prior to the Phase I disbursement date, in the revenue account, and (2) after the Phase I disbursement date, in the distribution account or in such other account as may be agreed by each Facility Agent; (vi) the Phase II Completion Date shall have occurred; (vii) such payment occurs within 30 days after January 10, April 10, July 10 or October 10 of each calendar year; (viii) all IFC C Loan interest rate amounts then due and payable have been paid in full; and (ix) SNAP-Benguet, no earlier than 60 days nor later than 30 days prior to doing so, has delivered a certificate as to the aforementioned conditions.

Security Arrangements

Under (i) the Mortgage Agreement between SNAP-Benguet and BDO-TIG (the "Onshore Collateral Trustee"); (ii) the Security and Assignment Agreement (the "New York Security Agreement") between SNAP-Benguet and HSBC (the "Offshore Collateral Trustee"); (iii) the Assignment Agreement between SNAP-Benguet and HSBC-PTD (the "Accounts Trustee"); and (iv) the Accounts and Trust Agreement among SNAP-Benguet, the Offshore Collateral Trustee, the Onshore Collateral Trustee, BDO (the "Account Bank") and the Accounts Trustee, SNAP-Benguet absolutely and unconditionally assigned its right to receive monies under certain contracts, and mortgaged and granted a security interest in SNAP-Benguet's other rights, title and interest in and to all of its property and assets to the Offshore Collateral Trustee, the Onshore Collateral Trustee and the Accounts Trustee, for the benefit of the lenders, the Facility Agents, the Offshore Collateral Trustee, the Onshore Collateral Trustee, the Accounts Trustee, the Account Bank and the hedge providers (the "Secured Parties") to secure, among other things, the obligations of SNAP-Benguet to the Secured Parties under the Omnibus Agreement (the "Obligations").

Under the Pledge Agreement among MORE and SN Power Singapore (the "Shareholders") and the Offshore Collateral Trustee, each of the Shareholders granted to the Offshore Collateral Trustee, for the benefit of the Secured Parties, a security interest in their respective rights, title and interest in, to and under, among other things, SNAP-Benguet's capital stock, to secure, among other things, the Obligations. On August 20, 2008, MORE and SN Power Singapore each executed a Pledge Supplement which specifically enumerated each of their respective pledged assets.

Under the Agency and Trust Agreement among SNAP-Benguet, the lenders, the Facility Agents, the Offshore and Onshore Collateral Trustees and the Accounts Trustee, each of the Collateral Trustees and the Accounts Trustee have been appointed to undertake their respective functions under the financing documents.

Share Retention Agreements

On August 6, 2008, AEV, AP, PHC, MORE, SNAP-Benguet, and HSBC as the Offshore Collateral Trustee, entered into a Share Retention Agreement whereby, the parties agreed that as long as any amount of the loans under the Ominbus Agreement remain available for disbursement by the lenders and until all the Obligations have been paid and performed in full: (i) PHC shall, together with SN Power Singapore, maintain not less than 50.1% of the capital stock, related voting rights of SNAP-Benguet and economic ownership interests in SNAP-Benguet and shall otherwise maintain control of SNAP-Benguet; (ii) AEV shall maintain not less than 50.1% of the capital stock, related voting rights of AP and economic ownership interests in AP; (iii) AP shall maintain not less than 50.1% of the capital stock, related voting rights of PHC and economic ownership interests in PHC; (iv) PHC shall, together with SN Power Singapore , maintain not less than 50.1% of the capital stock, related voting rights of MORE and economic ownership interests in MORE and shall otherwise maintain control of MORE; (v) MORE shall maintain directly not less than 60.0% of the capital stock and related voting rights of SNAP-Benguet and the economic ownership interests in SNAP-Benguet; (vi) SNAP-Benguet, AEV, AP, PHC and MORE (each a "Restricted Party") shall not transfer any of the capital stock, related voting rights or the economic ownership interest in another Restricted Party and each Restricted Party shall exercise all of its voting rights or economic ownership interests.

The parties agreed that the payment of all indebtedness of SNAP-Benguet to either AEV, AP, PHC, and MORE (collectively referred to as the "Subordinated Parties") is subject to the prior payment and performance in full of the Obligations (the "Subordinated Indebtedness"), except where funds are available in the non-collateral account and in the distribution account. In the event that any Subordinated Party receives on account of any Subordinated Indebtedness any payment or distribution of assets of SNAP-Benguet, to which the latter is not entitled to, such amount shall be held in trust for the benefit of the Secured Parties and shall immediately be paid over to the Offshore Collateral Trustee. It was agreed that in case of any insolvency proceedings with respect to SNAP-Benguet, all the Obligations shall first be paid and performed.

It was also agreed that the Subordinated Party cannot, without the prior written consent of the Offshore Collateral Trustee, dispose of any of the Subordinated Indebtedness or amend its terms or subordinate such to any other party other than the Secured Parties. The obligations of each Subordinated Party continues to be effective or be reinstated, if the payment of the Obligations is rescinded, reduced in amount, restored or returned by the holder of such Obligations. None of the Restricted Parties may assign their rights or obligations under this agreement without the prior written consent of each Facility Agent. The Share Retention Agreement automatically terminates upon full payment or performance of all the Obligations.

On August 6, 2008, SN Power, SN Power Singapore, MORE, SNAP-Benguet, and HSBC as the Offshore Collateral Trustee entered into a Share Retention Agreement whereby the parties agreed that as long as any amount of the loans under the Omnibus Agreement remain available for disbursement by the lenders and until all the Obligations have been indefeasibly paid and performed in full: (i) SN Power Singapore shall, together with PHC, maintain not less than 50.1% of the capital stock, related voting rights of SNAP-Benguet and economic ownership interests in SNAP-Benguet and shall otherwise maintain control of SNAP-Benguet; (ii) SN Power shall maintain not less than 50.1% of the capital stock, related voting rights of SN Power Singapore and economic ownership interests in SN Power Singapore; (iii) SN Power Singapore, prior to the either (a) the Ambuklao final completion date, (b) the Binga Civil Works completion date, or (c) the Major Maintenance Reserve Account shall have been established in accordance with the Accounts Agreement and shall be funded in an amount not less than the then-required major maintenance reserve requirement (the "Phase II Completion Date"), shall not transfer any of its interest in the capital stock or subordinated indebtedness of SNAP-Benguet and shall maintain not less than 16.7% of the capital stock and related voting rights of MORE and economic ownership interests in MORE and 40.0% of the capital stock and related voting rights of SNAP-Benguet and economic interest in SNAP-Benguet; (iv) MORE shall maintain directly not less than 60.0% of the capital stock and related voting rights of SNAP-Benguet and the economic ownership interests in SNAP-Benguet; and (v) no Restricted Party shall transfer any of the capital stock, related voting rights or the economic ownership interest in another restricted party and each restricted party shall exercise all of its voting rights or economic ownership interests. The other provisions of the agreement are substantially similar to the terms of the Share Retention Agreement discussed above.

Sponsor Support Agreement

On August 6, 2008, a Sponsor Support Agreement was executed by and among SN Power Singapore (the "Sponsor"), SNAP-Benguet, NIB, BDO-TIG and IFC (the "IFC C Loan Lender") whereby it was agreed that prior to: (i) the Phase II Completion Date, except with respect to any liability accrued, but not satisfied at such date or (ii) the Sponsor having funded its Sponsor's share (the "Sponsor's Share") of the maximum deficiency amount which is equal to: (a) US$121.1 million, if the debt service reserve accounts are fully funded (either in cash or by the posting of one or more reserve letters of credit); and (b) US$137.2 million, in all other cases (the "Sponsor Support Completion Date"), if SNAP-Benguet determines that, prior to the Phase II Completion Date, there is a shortfall in funds available to SNAP-Benguet (a "Deficiency") to cause the Phase II Completion Date to occur or to meet all its financial obligations when it is due and payable, SNAP-Benguet must ensure that it is provided with the amount to cover the Deficiency. In case insufficient or no action is undertaken by SNAP-Benguet, or any of the Facility Agents or the IFC Loan Lender determines that a Deficiency exists, any Facility Agent or the IFC Loan Lender may demand that the Sponsor provide funds equal to its Sponsor's Share of the amount of the Deficiency. The Deficiency shall be funded by way of subscriptions, loans or a combination of both. In the event that the Deficiency cannot be covered by either subscription, loan or a combination of both, the Sponsor may provide an unsecured, fully subordinated, non-interest bearing shareholders' advance evidenced by a subordinated indebtedness document.

Subordination Agreement

On August 6, 2008, SNAP-Benguet entered into a Subordination Agreement with BDO-TIG (the "Onshore Collateral Trustee") and AP. AP, including future holders of the indebtedness under the agreement, (the "Subordinated Parties") have entered into certain Subordinated Indebtedness documents with SNAP-

Benguet in the aggregate amount of up to US$97.5 million. The parties agreed that the payment of any and all indebtedness shall be subordinated to the prior indefeasible payment and performance in full of the Obligations. The Subordinated Indebtedness may be paid by SNAP-Benguet in a single payment on or after the Phase I disbursement. In the event that any Subordinated Party receives any payment or distribution of assets of SNAP-Benguet that it is not entitled to receive, such amount shall be held in trust for the benefit of the Secured Parties and shall be immediately paid over to the Onshore Collateral Trustee. In case of any insolvency proceedings, all the Obligations shall first be indefeasibly paid and performed. Any Secured Party may, at any time without notice or demand, change the time, place or manner for payment and performance or terms of the Obligations, hold security for the payment of the Obligations and exchange, enforce, waive and release the Security, apply the Security and direct the order or manner of sale and release or substitute any of the endorsers or guarantors. The consent of the Onshore Collateral Trustee is required in disposition of the Subordinated Indebtedness, subordination to any party that is not a Secured Party and amendment of any of the terms of the Subordinated Indebtedness. The obligations of each Subordinated Party shall continue to be effective, if the payment of the Obligations is rescinded, reduced, restored or returned by the holder of such Obligations. Similarly, the agreement shall remain in full force and effect notwithstanding the occurrence of any insolvency proceeding affecting SNAP-Benguet. The agreement shall terminate on the date that all of the Obligations have been indefeasibly discharged in full.

Civil and EM Works Contracts for Ambuklao Binga rehabilitation project

Contract for Civil Works between SNAP-Benguet and McConnell Dowell Philippines, Inc. ("McConnell")

On August 25, 2008, SNAP-Benguet entered into a Contract for Civil Works with McConnell for the execution of certain works for the Ambuklao and Binga Rehabilitation Project. The contract is governed by Singapore Law.

Contract for Supply of Hydrolic Steel Works, Electric and Mechanical Works between SNAP-Benguet and VA-Tech Hydro GmbH ("VATHG")

On August 25, 2008, SNAP-Benguet entered into a Contract for Supply of Hydrolic Steel Works, Electric and Mechanical Works with VATHG for the execution of certain works for the Ambuklao and Binga Rehabilitation Project. The contract is governed by Singapore Law.

Contract for Erection of Electrical and Mechanical Works between SNAP-Benguet and VA-Tech Hydro GmbH ("VATHG")

On August 2008, SNAP-Benguet entered into a Contract for Erection of Electrical and Mechanical Works with VATHG. The works include the transport from a Philippine port, erection, testing, and commissioning of certain electro-mechanical equipment and hydrolic steelworks for the Ambuklao and Binga Rehabilitation Project. The contract is governed by Singapore Law.

Coordination Agreement among SNAP-Benguet, Norconsult AS ("NAS") and Norconsult Management Services (Phils.), Inc. ("NMSPI")

SNAP-Benguet intends to rehabilitate the 75 MW Ambuklao hydroelectric power project, located at Bokod, Benguet, and the 100 MW Binga hydroelectric power project, located at Itogon, Benguet (the "Project").

As part of the Project, SNAP-Benguet entered into an Engineering Services Agreement with NAS, under which NAS agreed to prepare plans and specifications and provide other engineering support for the Project outside of the Philippines.

SNAP-Benguet also entered into a Project Management Services Agreement with NMSPI, under which NMSPI agreed to administer the civil works and electro-mechanical contracts during rehabilitation of the Project at the Project site.

Together with the execution and delivery of the Engineering Services Agreement and Project Management Services Agreement, the Parties entered into a Coordination Agreement (the "Agreement") on August 25, 2008 to coordinate the activities of, and allocate liability among, NAS and NMSPI during the performance of their obligations thereunder.

Under the Agreement, NAS and NMSPI shall cooperate with each other in performing the entirety of the services described under each of the contracts as amended by the Agreement in such a manner that the Engineering Services Agreement, the Project Management Services Agreement and the Coordination Agreement collectively constitute the functional equivalent of, and operate as if SNAP-Benguet had entered into, a single contract for the performance of the combined works of NAS and NMSPI.

Notwithstanding the separate contracts and the provisions of the Agreement, NAS and NMSPI agree that each of them shall be jointly and severally obligated and liable to execute and perform, or to cause to be executed or performed, the services under both of the contracts; and if either one of them fails to perform the services under its contract, then the other shall be responsible for the execution of this part of the services at no extra cost to SNAP-Benguet and within the time periods as provided under such contracts. However, NAS shall not itself perform any non-payment obligations within the Philippines under the Project Management Services Agreement but shall cause another entity in the Philippines to so perform.

NAS and NSMPI also agree that a default under one of the contracts shall constitute a default under the other contract, and that such default shall entitle SNAP-Benguet to all the remedies provided for in both contracts.

The Parties further acknowledge and agree that the aggregate liability of both NAS and NMSPI shall not exceed Norwegian Kroner ("NOK") 15 million, subject to the exceptions provided in the contracts.

Unless otherwise expressly provided in the Agreement, no Party shall assign, transfer, novate, pledge, exchange, hypothecate, or otherwise dispose of (including by merger, consolidation, amalgamation, scheme of arrangement, liquidation or dissolution or otherwise) any of its rights or obligations arising hereunder without the prior written consent of the other Parties.

The Agreement shall be governed by, and shall be construed in accordance with, the laws of the Republic of Singapore.

Engineering Services Agreement between SNAP-Benguet and Norconsult AS ("NAS")

SNAP-Benguet entered into an Engineering Services Agreement (the "Agreement") with NAS on August 25, 2008. Under the Agreement, NAS shall perform certain engineering services outside of the Philippines for the rehabilitation of the Ambuklao and Binga power projects.

The maximum aggregate liability of NAS arising out of the performance of those services relating to the Ambuklao Project shall not exceed NOK8.5 million. For those services relating to the Binga Project, its maximum aggregate liability shall not exceed NOK5.75 million.

Further, neither Party shall assign the whole or any part of the Agreement or any benefit or interest in or under this Agreement, unless the written consent of the other Party was obtained or in case of assignment of any moneys due, or to become due, under the Agreement as a single security in favor of a bank or financial institution. Nevertheless, NAS irrevocably and unconditionally agrees that SNAP-Benguet may assign all of its rights, interests and benefits under the Agreement in favor of a Lender (or any trustee or other agent acting for and on behalf of the Lender).

The Agreement shall be governed by, and shall be construed in accordance with, the laws of the Republic of Singapore.

Project Management Services Agreement between SNAP-Benguet and Norconsult Management Services (Phils.), Inc. ("NMSPI")

SNAP-Benguet entered into a Project Management Services Agreement (the "Agreement") with NSMPI on August 25, 2008. Under the Agreement, NMSPI shall perform certain project management services during the rehabilitation of the Ambuklao and Binga hydroelectric projects located in the Philippines.

Coordination Agreement among SNAP-Benguet, Norconsult AS ("NAS"), VA Tech Hydro GmbH ("VATHG") and McConnell Dowell Philippines, Inc. ("MDPI")

The Government of the Republic of the Philippines has awarded SNAP-Benguet the right to purchase the 75 MW Ambuklao hydroelectric power plant, located at Bokod, Benguet, and SNAP-Benguet intends to rehabilitate the power plant (the "Project") within a time frame that will allow SNAP-Benguet to commence commercial operation of the first and second of three generating units not later than July 6, 2010 and August 31, 2010, respectively.

As part of the Project, SNAP-Benguet entered into the following contracts on August 25, 2008: (1) Supply Agreement, under which VATHG as the Supplier shall supply certain electro-mechanical devices and hydraulic steelworks for the Project; (2) Civil Contract, under which MDPI as the Civil Contractor shall provide construction services for the Project; and (3) Engineering Contract, under which NAS as the Engineer shall provide engineering services for the Project, including, *inter alia,* the preparation of plans, specifications and detailed working drawings.

SNAP-Benguet also intends to enter into an Erection Contract with a legal entity to be established in the future in the Philippines, under which the Erection Contractor shall transport, install, test and commission the goods at the Project site.

In consideration of the execution and delivery of the Supply Contract, the Civil Contract and the Engineering Contract by SNAP-Benguet, VATHG, MDPI and NAS, the Parties have agreed to enter into a Coordination Agreement (the "Agreement") on August 25, 2008.

Under the Agreement, each of the project participants shall owe SNAP-Benguet a duty to coordinate with one another and work together in good faith, to perform the works and the other obligations under their respective contracts, and to exercise reasonable efforts to resolve any conflict with regard to scheduling, access and other matters related to the works.

Subject to the other terms of the Agreement, SNAP-Benguet agrees to pay VATHG, MDPI and the Erection Contractor an early completion bonus on the condition that NAS issues the Take-Over Certificate for Section 1 under the Erection Contract on or before August 3, 2010; and pay VATHG and the Erection Contractor a second early completion bonus on the condition that NAS issues the Take-Over Certificate for Section 2 under the Erection Contract on or before September 27, 2010.

Unless otherwise expressly provided in the Agreement, no Party shall assign, transfer, novate, pledge, exchange, hypothecate, or otherwise dispose of (including by merger, consolidation, amalgamation, scheme of arrangement, liquidation, dissolution or otherwise) any of its rights or obligations arising hereunder without the prior written consent of the other Parties.

The Agreement shall be governed by, and shall be construed in accordance with, the laws of the Republic of Singapore excluding its rules for conflict of laws.

Management Agreement among SNAP-Benguet, VA Tech Hydro GmbH ("VATHG") and Erection Contractor

In the draft of the Management Agreement dated August 22, 2008, it was indicated that SNAP-Benguet intends to rehabilitate the 75 MW Ambuklao hydroelectric power project, at Bokod, Benguet, and the 100 MW Binga hydroelectric power project, at Itogon, Benguet.
Together with the execution and delivery of the Supply Contract and the Erection Contract, the Parties shall enter into a Management Agreement (the "Agreement") to coordinate the activities of, and allocate liability among, VATHG and the Erection Contractor during the performance of their obligations hereunder.

Under the Agreement, VATHG and the Erection Contractor agree to cooperate with each other and SNAP-Benguet to perform their respective obligations under the contracts and the Agreement such that, taken together, they shall complete the works on or before the date of which the relevant contract (as modified by the Agreement) requires.

Further, VATHG and the Erection Contractor shall cooperate with each other in performing the combined works in such a manner that each of the contracts and the Agreement are collectively the functional equivalent of, and operate as if SNAP-Benguet had entered into, a single contract for the performance of the combined works. VATHG shall perform all obligations under the combined words to the extent required to be performed outside of the Philippines and the Erection Contractor shall perform all obligations under the combined works to the extent required to be performed within the Philippines, in each case in accordance with SNAP-Benguet's requirements.

Notwithstanding the separate contracts and the provisions of the Agreement, VATHG and the Erection Contractor agree that each of them shall be jointly and severally obligated and liable for any claim, damage or liabilities related to or arising from any work performed or to be performed by the other contractor under the relevant contract, including without limitation any such liabilities arising out of or relating to the alleged or actual delay, fault, default, non-performance or inadequate performance by the other contractor; provided, however, that VATHG shall not itself perform any non-payment obligations within the Philippines.

VATHG and the Erection Contractor also agree that a default under one of the contracts shall constitute a default under the other contract, and that such default shall entitle SNAP-Benguet to all the remedies provided for in both contracts.

Unless otherwise expressly provided in the Agreement, no Party shall assign, transfer, novate, pledge, exchange, hypothecate, or otherwise dispose of (including by merger, consolidation, amalgamation, scheme of arrangement, liquidation or dissolution or otherwise) any of its rights or obligations arising hereunder without the prior written consent of the other Parties.

The Agreement shall be governed by, and shall be construed in accordance with, the laws of the Republic of Singapore.

Hedcor Sibulan

Omnibus Loan and Security Agreement

On May 21, 2008, Hedcor Sibulan entered into an Omnibus and Loan Security Agreement ("OLSA") with Metropolitan Bank & Trust Company ("Metrobank"), Philippine National Bank ("PNB") and Rizal Commercial Banking Corporation ("RCBC") (the "Lenders"). The following were also parties to the OLSA: Philippine Hydropower Corporation, as the Sponsor; the Trust and Investments Division of RCBC, as the Facility Agent; the Trust Banking Group of PNB, as the Trustee; and the Trust Banking Group of Metrobank as the Project Accounts Depository. The Joint Lead Arrangers were First Investment Corporation, PNB Capital and Investment Corporation and RCBC Capital Corporation.

Project Loan Facility

Under Part B of the OLSA (the "Project Loan Facility Agreement"), the Lenders granted Hedcor Sibulan a loan facility in the aggregate principal amount of ₱3.57 billion. The proceeds of the loan facility are to be used to finance up to 70.0% of the design, development, procurement, construction, operation and maintenance of the 42.5 MW Sibulan Hydro-Electric Power Plant located in Santa Cruz, Davao del Sur. There are 6 drawdown dates (July 30, 2008, October 30, 2008, January 30, 2008, April 30, 2009, July 30, 2009 and October 30, 2009). Each Lender's participation in each drawdown is equal to the proportion which its commitment bears to the aggregate commitment of all the Lenders. The interest rate on the loan for each interest period is as follows: (a) for the 5-year period –the prevailing 5-year PDST-F interest rate for the day immediately preceding the fixed interest setting date plus 1.0%; and (b) for the 7-year period – the prevailing 7-year PDST-F interest rate for the day immediately preceding the fixed interest setting date plus 1.125%. Hedcor Sibulan must repay 70.0% of the principal amount of the loan for the *pro rata pari passu* account of each Lender within 12 years from the date of the initial drawdown, in semi-annual principal installments commencing on the thirtieth month from the date of the initial drawdown (i.e., July 30, 2008) and semi-annually thereafter. A balloon payment equivalent to 30.0% of the principal amount of the loan, or such amount as is required to be paid to repay all outstanding obligations of Hedcor Sibulan, must then be paid on the final principal amortization date.

Project Accounts

Under Part C of the OLSA (the "Project Accounts Agreement"), Hedcor Sibulan, in the name of PNB, as the Trustee, established with Metrobank several bank accounts wherein certain moneys or proceeds from the construction of the 42.5 MW Sibulan Hydro-electric Power Plant are deposited. PNB has the exclusive control over and exclusive right of withdrawal from the bank accounts.

Security Arrangements

Under the terms of Part D of the OLSA dated May 21, 2008, a Mortgage Trust Indenture was constituted to secure Hedcor Sibulan's obligations under the Project Loan Facility Agreement. A real estate mortgage and chattel mortgage were established over the present assets of Hedcor Sibulan. Hedcor Sibulan also agreed to constitute a mortgage lien on its future assets upon their coming into existence or upon the acquisition of ownership of such assets.

Under the terms of Part E of the OLSA dated May 21, 2008, a pledge was constituted over the shares owned by PHC in Hedcor Sibulan (including any stock held by the nominees of PHC) and over the shareholder advances and subordinated loans granted by PHC to Hedcor Sibulan. PHC also agreed to constitute a pledge over shares to be subsequently owned by PHC in Hedcor Sibulan and over the shareholder advances and subordinated loans to be subsequently granted by PHC to Hedcor Sibulan.

As one of the covenants, Hedcor Sibulan must maintain a Debt Service Coverage Ratio ("DSCR") of at least 1.1x at all times until full payment of its obligations and at least 1.2x for the release of funds from the balance account in the name of PNB as the Trustee to the distribution account maintained by Hedcor Sibulan. Hedcor Sibulan and PHC shall also ensure that the Aboitiz Group maintains ownership, directly or indirectly, of at least 51.0% of the total voting stock of Hedcor Sibulan and maintains management control of Hedcor Sibulan. Further, Hedcor Sibulan shall not redeem any of its shares nor return or repay any of its subordinated loans (except such subordinated loans granted to Hedcor Sibulan to cover construction costs in between advances) if its current debt-equity ratio will fall below 70:30.

Hedcor Sibulan must not redeem any of its shares nor return or repay any of its subordinated loans (except such subordinated loans granted to Hedcor Sibulan to cover construction costs in between advances) if its current debt-to-equity ratio will fall below 70:30. Further, Hedcor Sibulan must not engage in any of the foregoing acts, declare or pay any distribution, nor set aside any funds for any of the foregoing purposes, at any time prior to the first principal amortization date (i.e., 30th month from the date of the initial drawdown) and unless (i) such action is permitted by the financing agreements and under Philippine law; (ii) no event of default is existing (or would be in existence after giving effect to such other

action); and (iii) payment required to be made by Hedcor Sibulan pursuant to such action shall be taken from the distribution account maintained by Hedcor Sibulan.

In case of default, the principal of, and all accrued interest on, the loan under the facility (together with any other amounts accrued or payable to the Lenders under such facility) becomes immediately due and payable without any further notice and without any presentment, demand or protest. Further, any undrawn portion of the Facility will be terminated. Hedcor Sibulan must also pay interest from and including the due date to the date of actual payment at the rate of 2.0% per annum plus the applicable interest rate.

Sibulan Hydro Electric Power Project Electro-Mechanical Contract

In connection with the bidding of Hedcor Sibulan for the Sibulan Hydro Power Plant Project's Electro-Mechanical Work (the "EM Contract"), Socoin Ingenieria Y Construction Industrial, SLU (the "Contractor") has been declared as the winning bidder pursuant to the EM Contract duly executed between the parties dated April 4, 2007.

Electro-Mechanical Works Contract for Sibulan A and B Power Stations between Hedcor Sibulan and Socoin Ingenieria Y Construccion Industrial SLU ("Socoin")

On April 4, 2007, Hedcor Sibulan entered into an Electro-Mechanical Works Contract ("EMWC") with Socoin in connection with the Sibulan Hydro-Electric Power Project. Socoin was contracted by Hedcor Siulan to do certain works namely, detailed design, equipment supply, transport, erection on site, installation and commissioning of all electromechanical equipment from the bifurcation to 13.8 to 69 kV step-up substations for a consideration of US$22.79 million.

Sibulan Hydro Electric Power Project Civil Works Contract

Civil Works Contract between Hedcor Sibulan and J.V. Angeles Construction Corporation ("JVACC")

On February 1, 2007, Hedcor Sibulan entered into a Civil Works Contract with JVACC for the design, execution and completion of the civil works for the Sibulan Hydro-Electric Power Project for consideration of ₱2.54 billion to be paid to JVACC. The Sibulan Hydro-Electric Power Project is a run-of-river water storage reservoir consisting of a cascade of two (2) hydro-electric power plants, namely, an upstream Plant A with an installed nominal capacity of about 16 MW and a downstream Plant B with an installed nominal capacity of about 26.5 MW located at Brgy. Sibulan, Sta. Cruz, Davao del Sur, Mindanao Island. The civil works include: (1) the supply and construction of all civil structures in Plant A and B including among others, access roads, bridges, intake weirs, headponds, powerhouse and yard, power sub-station, anchor blocks for pipe conveyance and penstock, temporary skylines and temporary facilities; (2) the supply and installation of all main and tributary pipe conveyance and penstock in Plant A and B including, among others, all pipe accessories such as air valves, expansion joints, steel pipe bridges, external and internal pipe coatings; and (3) the supply and construction of an inverted U cross section tunnels in Plant A and B including among others, portal preparation and stabilization, tunnel excavation, temporary supports, final tunnel lining, and spoil disposal.

PHC Parent Company Guarantee

Under the terms of the EM Contract, Hedcor Sibulan was required to provide a parent company guarantee issued by PHC whereby PHC shall guarantee the payment of obligations of Hedcor Sibulan to the Contractor in the maximum amount of 80.0% of the contract price.

In a letter dated October 16, 2007 and addressed to the Contractor, PHC irrevocably guaranteed that in case Hedcor Sibulan fails solely to perform its payment obligation to the Contractor, PHC will cause and ensure that Hedcor Sibulan will pay within 14 days upon the receipt of PHC of the first written demand letter of the Contractor, within the specifications under the EM Contract.

Aboitiz Letter of Comfort

While AP, as the parent company of PHC, was not under any legal obligation under the EM Contract to execute any guarantee or sponsor support for Hedcor Sibulan, AP was willing to provide the Contractor, for the sole purpose of assisting it in obtaining financial support from the Spanish EX-IM Bank, an assurance of its full support and backing of the Sibulan hydroelectric power project. Hence, it issued a Letter of Comfort dated October 9, 2007 addressed to the Contractor undertaking to fully support Hedcor Sibulan in case it fails to perform its payment obligations to the Contractor and only after the Contractor has exhausted its remedies under the EM Contract against Hedcor Sibulan and under the PHC Parent Company Guarantee. AP shall ensure that Hedcor Sibulan is able to pay up to a maximum amount of 80.0% of the contract price within 14 days upon the receipt of AP of the first written demand letter of the Contractor.

RP Energy

Memorandum of Agreement with TCIC

On February 5, 2007, APC entered into a MOA with TCIC to collaborate in conducting a feasibility study and developing an independent coal fired power plant in the Subic Bay Freeport Zone (the "SBIPP Project") wherein TCIC intends to build, own and operate the SBIPP Project. The parties further agree to form a JV company for implementing the SBIPP Project. The MOA became effective from its signing and will be terminated on the earlier of: December 31, 2007, when the JV company has been formed and the shareholders agreement has been executed, or when both parties mutually agree to terminate the MOA. TCIC and APC shall each hold 50.0% of the shares in the JV company. The estimated total cost of development of the project is US$ 500,000.

Letter of Award to Formosa Heavy Industries

TCIC, in its capacity as a prospective contractor under the Engineering, Procurement and Construction Contract with RP Energy, issued a Letter of Award ("LOA") to Formosa Heavy Industries on March 31, 2008 for the supply of power block including boiler island, turbine island and environmental island and the provision of certain services relevant thereto (the "Works") for the Redondo Peninsula Independent Power Plant Project.

Under the LOA, TCIC confirmed its intention to engage Formosa Heavy Industries to perform the Works. The parties also agreed to execute the Definitive Agreement by September 30, 2008 or a later date as mutually agreed between the parties. TCIC agreed to pay a downpayment in the amount of US$10.28 million, i.e., 5.0% of the contract price of US$205.68 million, to Formosa Heavy Industries on or before April 30, 2008. The LOA shall be governed by the laws of the Republic of China.

STEAG Power

STEAG Shareholders' Agreement

In 2007, STEAG GmbH, State Investment Trust Inc., APC, (the "Shareholders") and STEAG Power entered into a Shareholders' Agreement in order to establish the manner in which STEAG Power is to be run and to set out the terms governing their relationship as shareholders of STEAG Power. The Shareholders have agreed, through STEAG Power, to jointly operate and maintain the 232 MW (gross) Mindanao coal-fired power plant at the PHIVIDEC Industrial Estate in Misamis Oriental, Mindanao, Philippines together with related facilities, as more particularly described in the PPA (the "Project").

The Shareholders' Agreement set forth the parties' agreement with respect to funding, composition of the board of directors, reserved and majority matters and voting, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer of shares), pre-emptive rights, budget, dividend policy, default and confidentiality.

Power Purchase Agreement (“PPA”) between NPC and the Consortium of SITI and Harbin Power Engineering Company, Limited (the “Consortium”)

The PPA was entered into on June 27, 1998 by NPC and the Consortium for the design, financing construction and operation of the 210 MW coal-fired thermal plant to be constructed in Mindanao, the Republic of the Philippines. The above parties and STEAG Power (formerly State Power Development Corporation) executed an Accession Undertaking on the same day whereby STEAG Power assumed the obligations of the Consortium under the PPA.

On March 2, 2001, STEAG Power and NPC executed a First Amendment Agreement.

On February 4, 2003, STEAG Power, NPC and PSALM executed a Second Amendment Agreement.

PSALM has acceded to the PPA to incur joint and several liability in respect of NPC's obligations thereunder.

Duration

The PPA is on a built-operate-transfer basis ("BOT") The electrical capacity to be generated by the Plant comes from two thermal Units - each of 105 MW, The Cooperation Period (operation phase) in relation to Unit 1 runs from September 15, 2006 or a period of 25 years until September 15, 2031. The Cooperation Period in relation to Unit 2 runs from November 15, 2006 for a period of 25 years until November 15, 2031. At the end of the Cooperation Period for Unit 2, the Plant is to be transferred by STEAG Power to NPC without any compensation.

Security

STEAG Power has provided an Operation Performance Bond in the amount of US$6 million to guarantee the performance of its obligations during the Cooperation Period.

Performance Undertaking (the “PU”)

The PU is an undertaking issued by the Republic of Philippines (the “ROP”) (acting through the DOF) whereby the ROP guarantees the performance by NPC of its obligations under the PPA. The PU was issued on May 13, 2003. The PU has been assigned to the Lenders. The DOF has issued a Consent and Acknowledgement Letter confirming its consent to such assignment.

Operation

NPC and STEAG Power have organised a committee (the “Steering Committee”) which is responsible for agreeing to safety, technical and administrative guidelines for the operation of the Plant. STEAG Power is required to operate the Plant in accordance with all environmental laws, rules and regulations in force as of the bidding date (Including RA 8749, otherwise known as the Clean Air Act of 1999) and to comply with all the requirements of the Environmental Compliance Certificate (“ECC"). STEAG Power is liable to pay a penalty in the event of shutdown or operation stoppage of the Plant by reason of its failure to comply with the conditions set out in the ECC.

Fuel

STEAG Power is responsible for obtaining and supplying adequate Coal and Oil for the Plant. The cost of Coal and Oil to be supplied by STEAG Power is for STEAG Power’s account. STEAG Power is liable to pay a penalty in the event that the sulphur content of the Coal is not in accordance with the specifications set out in the PPA. The PPA provides for an “emergency” adjustment to the Energy Fee in the event that there is an increase or decrease in the price of Coal by more than 12.0% based on the Japan Australia Benchmark Index (“JBP”) as well as the regular indexation of the Energy Fee to reflect movements in this

index. The JBP Index has ceased to exist and an alternative index Japanese Public Utilities ("JPU") reference price will be used as the replacement index. An amendment to the PPA in relation to the use of an alternative index is expected to be finalised in due course.

The PPA also provides that, subject to availability, STEAG Power shall procure at least 15.0% of the coal requirements for the Plant from NPC-approved local suppliers of coal. Upon the determination by STEAG Power that a commercial benefit can be derived from the use of local coal (i.e., the price of local coal is equal or less than the benchmark price set out in the PPA), STEAG Power shall share such benefit with NPC and PSALM. The Acknowledgement and Consent entered into among the Project's lenders, NPC, PSALM and STEAG Power (the "PPA Direct Agreement") clarifies that the PPA does not impose an obligation on STEAG Power to take physical deliveries of coal from local suppliers provided that the commercial benefit (as calculated pursuant to the PPA) of coal from local suppliers is shared with NPC and PSALM.

Invoicing and Payment

During the Cooperation Period, STEAG Power is required to deliver to NPC an invoice within five days from the date of the meter leading but no later than the end of each calendar month. NPC is required to pay the cost of startups in accordance with the Second Schedule, the Capital Recovery Fee, the Fixed Operating Fee, the Service Fee, the Infrastructure Fee, the Transmission Line Fee, and the Energy Fee. All fees are payable together with VAT (if and when these fees are made subject to VAT). In the event of disputed invoices, NPC is only required to pay the undisputed amount on or before the due date and the disputed amount is required to be resolved within 15 days after the due date. Any payment that is not made on the due date shall carry interest at the rate of 2.0% per annum over the Overnight Federal Funds Rate.

The tariff is broken down into three basic components:

- the Capital Recovery Fee, Fixed Operating Fee, Service Fee, and Infrastructure Fee, based on a capacity fee arrangement (i.e. NPC/PSALM pay a fee based on the Plant's capacity adjusted by reference to the Plant's availability);
- the Transmission Fee (compensation for construction of the spur transmission line), paid as a "capacity fee" based on the Plant's capacity (but not adjusted by reference to actual availability); and
- the Energy Fee (containing a component for fuel cost and another for variable operating costs) paid on a per kWh sent out basis.

The majority of the "capacity" fees are payable in US$. Similarly all of the fuel component and a proportion of the variable operating costs making up the Energy Fee are payable in US$.

The "capacity rate" on which capacity payments are based is set on the lower of "nominated" capacity (i.e. the level notified by STEAG Power up to 200 MW or higher subject to NPC's agreement as being what it thinks the Plant can achieve) and "contract" capacity (i.e. 200 MW). The capacity is nominated every year. If nominated capacity is below a percentage of NCC then there is essentially a 2 MW deduction (in terms of fee) for each MW of shortfall. A further incremental deduction is made if the nominated capacity is below 80.0% of contracted capacity. The current nominated capacity is 200 MW and has been accepted by NPC.

The availability calculation essentially multiplies the capacity payment by "F" and further imposes a deduction of 1-"F". For these purposes F is the product of the actual generation in a month divided by "TMEG". TMEG is the Plant's theoretical maximum output less a deduction for (1) non or reduced dispatch, (2) government force majeure and (3) planned and unplanned outage allowance up to a cap.

It is agreed that the unplanned outage allowance is available for Force Majeure affecting the Plant.

The coal price is adjusted every five years by reference to the movements in the JBP or the alternative

index JPU which has been agreed to by NPC (subject to formalising of the amendment agreement) such that in years 6-10 the reference price is the mean price in years 1-5.

Privatisation

NPC undertakes that it shall assure that STEAG Power's rights and net financial return under the PPA are preserved in the event that there is a real or purported assignment of NPC's rights or assumption of NPC's obligations under the PPA or that there is a material and adverse change on the ability of NPC or its successor to perform Its obligations under the PPA.

Buyout

NPC is required to buy the Plant from STEAG Power in certain situations. The Buyout provisions apply in the following circumstances:

- non-payment by NPC of any sum due to STEAG Power within 90 days of its due date;
- extended delay in obtaining Governmental Permits and failure of the parties to reach agreement on amending the PPA within three months;
- termination, withdrawal rescission or amendment of existing Governmental Permits or the introduction of new permits and failure of the parties to reach agreement on amending the PPA within 60 days;
- if compliance by STEAG Power with new laws and regulations would result in one Unit being unable to operate within the operating parameters or STEAG Power's interests or financial return on its investments is materially affected and the parties fail to agree to amending the PPA within 100 days;
- changes in circumstances which materially reduce, prejudice or otherwise adversely effect STEAG Power's financial return and/or its interest in the project or the Plant and failure of the parties to reach agreement on amending the PPA within 90 days; and
- failure of the parties to agree on amending the PPA within 30 days in the event of extended force majeure of over 180 days.

After the 20th anniversary of the Completion Date, NPC has the right to require STEAG Power to sell out to NPC the Plant by giving STEAG Power not less 90 day notice that it wishes to close the Plant.

After the 25th anniversary of the Completion Date, the Plant including the Jetty and Transmission Line will be transferred to NPC without any compensation. There will be no continuing obligations on STEAG Power after the said transfer.

The PPA Direct Agreement clarifies that with respect to the calculation of the Post-Completion buyout price, the buyout price shall not be less than the outstanding debt plus costs (term loans and VAT loans) then outstanding.

Insurance

STEAG Power is required to ensure that there is effective adequate insurance as provided in the PPA.

The PPA provides that if an event of Force Majeure occurs and causes damage to the Plant, such risk is not ordinarily insured against by NPC. STEAG Power is not obliged to reinstate the Plant until the parties have agreed on a manner of reinstatement that ensures STEAG Power's maintenance of its financial returns in the Project.

The PPA Direct Agreement clarifies that terrorism will be treated as a risk not ordinarily insured against by NPC until such date that NPC or PSALM notifies STEAG Power that it has obtained Insurance to full replacement value as against this risk in respect of all its generating assets in Mindanao.

Transmission Line and interconnection Facility

The Transmission Line has been completed and it connects the Plant to the Mindanao Grid at the Tagoloan Substation. In accordance with the PPA, ownership of the Transmission Line will remain with STEAG Power and STEAG Power will be responsible for operation and maintenance of the Transmission Line.

Force Majeure

The PPA draws a distinction between "political" force majeure (defined as events which are under the reasonable control of NPC and/or the Republic of the Philippines) and "natural" force majeure (defined as events which are beyond the reasonable control of both NPC and STEAG Power).

NPC is not relieved of its payment obligations in the event of political force majeure and is required to continue making Capacity Fee, Energy Fee and Transmission Line Fee payments in such circumstances.

In the event of a natural force majeure, the obligations of both parties are suspended and if reinstatement is not possible or the terms of such reinstatement are not acceptable to both parties, the buy-out clause can be triggered after 180 days.

It is worth noting that a natural force majeure affecting the grid is treated in the same way as a natural force majeure affecting the Plant.

Termination

NPC has the right to terminate the PPA in the following circumstances:

- STEAG Power notifying NPC in writing that it has permanently terminated the operation of the Plant and does not intend to recommence operation;
- winding-up, dissolution or bankruptcy proceedings being commenced against STEAG Power;
- a transfer, conveyance, loss or relinquishment of STEAG Power's rights to own and/or operate the Plant or to occupy the Site due to the fault of STEAG Power and without the fault of NPC; and
- any Unplanned Outage resulting in a total shutdown exceeding five consecutive months other than by reasons of force majeure or fault of NPC.

Within 6 months from the notice of termination, NPC or PSALM shall pay to STEAG Power the appraised value of the completed works. The PPA Direct Agreement clarifies that the value of completed works to be paid by NPC or PSALM shall not be less than the amount of outstanding debt (term facilities and VAT facility).

Dispute Settlement

The PPA provides for arbitration to be settled under UNCITRAL Rules in Singapore by a panel of three arbitrators.

Governing Law

The PPA is governed by Philippine law.

Project Finance Documents

JBIC Facility

Facility: US$59 million Direct Loan by JBIC

Purpose: (a) financing up to 85.0% of the Japanese export value under the EPC Contract; (b) financing qualifying local costs up to the lesser of (i) 15.0% of the Japanese export value or (ii) 100% of such local cost; (c) financing interest during construction.

Repayment Profile: The JBIC Facility and NEXI Facility will be repaid together in 24 equal semi-annual instalments of US$4.08 million per instalment. Between the two facilities the NEXI Facility will enjoy the benefit of the Senior Redemption Scheme with a significantly front ended repayment schedule.

Final Repayment Date: January 2019

NEXI Facility

Facility: US$39 million co-financing based on JBIC/NEXI Buyers Credit.

Purpose: (a) financing up to 85.0% of the Japanese export value under the EPC Contract; (b) financing qualifying local costs up to the lesser of (i) 15.0% of the Japanese export value or (ii) 100% of such local cost; (c) financing interest during construction.

Repayment Profile: The JBIC Facility and NEXI Facility will be repaid together in 24 equal semi annual instalments of US$4.08 million per instalment. Between the two facilities the NEXI Facility will enjoy the benefit of the Senior Redemption Scheme with a significantly front ended repayment schedule.

Final Repayment Date: January 2019
Interest Rate: LIBOR plus Margin
Margin: 185 bps p.a.
Interest Periods: Six months (Subject to consolidation provisions in the construction phase)

Type of Political Risk Coverage: The NEXI Political Risk Insurance covers 97.5% of principal and interest under the NEXI Facility. Details of the cover include:

- natural disasters (earthquake, storm, typhoon, etc)
- riot, turmoil, blockage, general strike or terrorist act with political intent in the Republic of Philippines
- confiscation, expropriation or nationalization by the government of the assets held by STEAG Power
- any right of STEAG Power held (i) in respect of real property, facilities, equipment, etc. or (ii) under the Project documents, is infringed upon due to an act of the government or the enactment of new laws or amendments to any existing law in the Philippines;
- the license necessary for the performance of the obligation of STEAG Power under the Project documents is not obtained, or the license is otherwise impaired, cancelled, terminated or expires despite the utmost efforts of STEAG Power due to an act of the government or the central bank or due to the enactment of new laws or amendments to any existing law which could not reasonably be foreseen by the Insured at the time of execution of the Export Credit Agreement; or
- the Insured's right to receive the principal and interest under the Export Credit Agreement is infringed on, or the exercise of the security for such principal and interest becomes impossible, or objects of such security is infringed on due to action of the government or the central bank or due to the enactment of new laws or any amendment to any existing law.

Extended Political Risk

- the failure by the government to perform its guarantee obligations under the Performance Undertaking or the Consent and Acknowledgement is covered as extended political risk.

DIA Facility

Amount: US$100 million

Repayment Profile: 24 unequal semi-annual instalments

Final Repayment Date: January 2019

DIA Facility Agent: KfW

Interest Rate: LIBOR plus Margin

Margin: 215 bps p.a. or in the event that (i) on any repayment date the DSCR is greater than or equal to 1.8:1, LIBOR plus 215 bps p.a. plus 35 bps p.a., for the immediately succeeding 6-month interest period; or (ii) on any repayment date the DSCR is less than or equal to 1.1:1, LIBOR plus 215 bps p.a. less 35 bps p.a., for the immediately succeeding 6-month period.

Interest Periods: Six months (subject to consolidation provisions in the construction phase)

It is a condition of eligibility for DIA guarantee cover that the covered loan has certain quasi equity characteristics. Thus, the DIA Facility incorporates an option for the Borrower to defer the repayment of a principal installment in the event that the Borrower is of the opinion that the DSCR for the 6-month period immediately prior to the scheduled repayment date for that installment will be equal to or less than 1.1:1. The repayment of that principal installment may only be deferred for 6-months, and may not be deferred beyond the Final Repayment Date. The Borrower may only exercise the deferral option a maximum of 3 times during the term of the loan.

Scope of cover

The guarantee (the “DIA Guarantee”) issued by the Federal Republic of Germany will cover 95.0% of the principal and interest under the DIA Facility against defaults caused by the following political risk events:

- Nationalisation, expropriation or other acts by a higher authority which in effect are equivalent to an expropriation;
- War or other armed conflicts, revolutions or rebellions;
- Payment embargoes or moratoriums;
- Currency inconvertibility or inability to transfer currency from the Philippines to Germany;

Extended Political Risk

- Breach by NPC (or any legal successor thereof) of certain obligations (including payment) under the PPA provided that the underlying cause of such breach is political in nature and such breach would give rise to a claim under the Performance Undertaking.

The following terms are common to the JBIC Facility, NEXI Facility, and DIA Facility

Key Default Ratios:

(i) DSCR for the last two Calculation Periods is less than 1:1;
(ii) Projected DSCR for the next two Calculation Periods is less than 1.10:1;
(iii) LLCR for any Calculation Date is less than 1.15:1;

Distribution: The Distribution Test is passed if:

(i) all reserve accounts are fully funded or backed by acceptable letters of credit up to the required amounts;
(ii) DSCR exceeds 1.25 for the last two Calculation Periods;
(iii) Projected DSCR exceeds 1.25 for the next two Calculation Periods;
(iv) LLCR exceeds 1.25 on that Calculation Date;
(v) the Commercial Completion Date has occurred;
(vi) no Event of Default or Potential Event of Default exists;
(vii) STEAG Power is in strict compliance with the insurance requirements of the Finance Documents;
(viii) no General Litigation or Environmental Litigation exists.

VAT Facility

Amount: ₱880 million

Repayment Profile: 8 equal semi-annual instalments

Final Repayment Date: January 2011

VAT Facility Agent: Banco de Oro

Interest Rate: Philippine Banking Market - MART 1 Rates

Margin: 175 bps p.a.

Interest Periods: Six months (subject to consolidation provisions in the construction phase

Security:

An assignment of STEAG Power's rights to receive VAT Reimbursements from NPC under the PPA.

An assignment of STEAG Power's right to receive amounts from ROP pursuant to the PU in respect of NPC's VAT Reimbursement obligations under the PPA. Priority rights in respect of the VAT Account. Otherwise, second ranking security overall assets.

The VAT Facility between Banco de Oro and STEAG Power is ring fenced and is not subject to the common terms agreement of the Senior Facility, The VAT Facility relates only to STEAG Power's right to receive amounts from ROP pursuant to the PU in respect of NPC's VAT Reimbursement obligations under the PPA. However, Banco de Oro has entered into an intercreditor agreement with the Lenders.

APRI

Asset Purchase Agreement

On July 30, 2008, APRI, a wholly-owned subsidiary of APC, submitted the winning bid of US$ 446.89 million ("Purchase Price") to PSALM for the purchase of the Geothermal Complex consisting of the 289 MW Tiwi Geothermal Power Plant located at Tiwi, Albay and the 458.53 MW MakBan Geothermal Power Plant located at Laguna and Batangas Provinces ("Tiwi-MakBan"). Note that while the installed capacity of the Tiwi-MakBan is 767 MW, it is expected that the dependable capacity will only be 462 MW, due to limitation in steam supply.

The Asset Purchase Agreement ("APA") entered into by APRI and PSALM became effective on August 22, 2008 ("Effective Date").

Under the APA, APRI as the winning bidder, is required to pay the Purchase Price in several tranches. At least 40.0% of the Purchase Price ("Up-Front Payment") shall be paid on or before the Closing Date, which may be anytime between the 60th and 270th day from Effective Date, while the remaining balance shall be payable in 14 semi-annual payments ("Deferred Payments"). The first of the Deferred Payments shall be paid six (6) months after the Closing Date.

Among the rights and obligations assigned to APRI, under the APA, are transition supply contracts ("TSC") with various expiring terms and covering an estimate of 480 MW capacity at combined peak. Included among the supply contracts assigned, while not a TSC, is the obligation to supply 219 MW to Meralco. Rates for the TSCs are pegged to Base NPC Time-of-Use Rates, which is currently at ₱3.8966/kWh.

The APA likewise requires APRI to rehabilitate Units 5 and 6 of the MakBan Geothermal Power Plant at its own cost and expense. The rehabilitation must be accomplished and completed within four years from Closing Date.

Control and management of Tiwi-MakBan shall be turned over by PSALM to APRI on Closing Date. The management and operation of the steam fields, which supply steam to Tiwi-MakBan, shall remain with Chevron. After turn-over of Tiwi-MakBan, but before the rehabilitation is completed, the steam supply arrangement between APRI and Chevron shall be governed by a Transition Agreement ("TA"), which provides for the reimbursement of capital expenditures and operating expenses, as well as payment of service fees by APRI to Chevron. After the rehabilitation is completed, the steam supply arrangement shall be governed by the Geothermal Resource Service Contract ("GRSC"), wherein APRI will no longer pay service fees and reimburse Chevron for capital expenditures and operating expenses. Instead, under the GRSC, APRI shall pay Chevron for the price of steam, which shall be linked to coal price indices – Barlow Jonker and JPU. The GRSC shall be effective until 2021.

DISTRIBUTION COMPANIES

DLPC

Contract for the Supply of Electric Energy between NPC and DLPC

On September 26, 2005, DLPC entered into a contract for the supply of electric energy consisting of a transition supply contract and a regular bilateral contract with NPC ("DLPC Supply Contract"). Under the DLPC Supply Contract, NPC will supply DLPC with electricity. The DLPC Supply Contract will remain in effect for a period of ten years until December 25, 2015. Unless otherwise stipulated in the DLPC Supply Contract, the applicable provisions thereof will be deemed modified by the applicable WESM Rules, upon commercial operation of the WESM in Mindanao, as declared by the DOE.

The contracted energy allocated by NPC to DLPC within the contract period shall not be altered by either party except as provided for in the DLPC Supply Contract. The contracted energy from December 2005 to

2015 shall be 241 MW per month or a total of 1,238,475 MWh per year.

Under the terms of the DLPC Supply Contract, NPC will supply the contracted energy in accordance with good utility practice and in compliance with appropriate rules and regulations such as the Philippine Grid Code and the OATS. The supply of energy will be available except for interruption or reduction due to causes beyond the control of NPC, transmission failure, maintenance operations to ensure system stability and safety reasons as may be provided by laws, rules or regulation. In case of shortage in the generation capacity of the NPC, DLPC shall be informed of the deficiency and allocation of the available supply of electricity to DLPC shall be proportionate to the contracted energy.

DLPC may be allowed to increase its contracted energy in the event another customer of NPC assigns its contracted energy to DLPC with the approval of NPC or DLPC wants to increase its energy requirement from NPC. DLPC may apply for increases in contract energy requirement through an amendment of the contracted energy, subject to the approval of NPC. DLPC is also required to seek the approval and certification from Transco that the transmission, sub-transmission, substation and other facilities are able to accommodate the increase in its power requirements.

DLPC is entitled to reduce its contracted energy upon written application to NPC and payment of the buy-out fee. The buy-out fee is equivalent to the present value of the fixed cost component of the applicable generation rate schedule or price of electric energy including adjustments of the reduction in the contracted energy sought at a discount rate equivalent to the prevailing 91-day Philippine Treasury Bill rate.

DLPC may be allowed to reduce its contracted energy without the payment of the buy-out fee under certain circumstances, including a reduction in demand caused by the transfer by a consumer of its power and energy source from DLPC to NPC or to another customer of NPC located within the same grid.

NPC may assign or transfer part or all of its rights and obligations in the supply of contracted energy to any entity, provided that written notice is given to DLPC, 30 days before the actual transfer. DLPC may assign, sell or transfer a part or all of its contracted energy either permanently or for a certain number of billing periods, under certain circumstances and subject to the written consent of NPC, which consent shall not be unreasonably withheld. The transfer by DLPC of all the contracted energy will relieve DLPC of all its rights and obligations to NPC, provided that DLPC has paid all its outstanding obligations to NPC.

The ERC-approved generation rates and other charges exclusive of penalties and bonuses, are applied to DLPC's contracted monthly or hourly energy consumption. Prior to the commercial operation of the WESM, for consumption higher than 120.0% of the contracted energy level, the basic energy charge to be applied is the prevailing ERC-approved rate and other adjustments plus 20.0% of such rate for the incremental increase beyond 120.0% of the contracted energy. Upon the commercial operation of the WESM, the basic energy charge to be applied to the contracted energy shall be in accordance with the price settlement mechanism of the DLPC Supply Contract during the operation of the WESM.

Under the terms of the Supply Contract, DLPC shall pay a minimum charge based on the contracted energy per billing period using the basic energy charge, even if DLPC has not fully taken or failed to consume the contracted energy, subject to deductions and adjustments as expressly provided for in the DLPC Supply Contract.

Should the supply of electricity be interrupted or curtailed to a level below the contracted energy due to the fault or lack of generation capacity of the NPC, even if DLPC was at that time unable to take or consume electricity, the contracted energy shall be adjusted. Contracted energy not taken due to DLPC's fault or negligence or other causes affecting DLPC's ability to take or consume electricity shall not entitle DLPC to interruption adjustments.

DLPC may avail of a service adjustment in the contracted energy during the scheduled maintenance of its facilities, provided that such adjustments do not apply to more than two billing periods in one year. The

minimum charge on the energy consumption is 50.0% of the contracted energy. To be able to avail of this adjustment, DLPC must inform NPC in writing 30 days prior to the commencement of the scheduled maintenance.

Disputed bills may be questioned in writing by DLPC within 60 days from the date of its receipt and NPC shall act on such disputed bills on a best effort basis and commit to resolve the claim within 60 days from the date of filing of the claim. Failure by DLPC to question the power bills on time shall constitute a waiver by DLPC of any claim on such bills. Disputed bills are required to be paid by DLPC without deductions or offsets and NPC shall evaluate the claim and adjust the billings in accordance with its findings. DLPC is entitled to a refund of any overpayment plus interest equivalent to the 91-day T-Bill rate from the date that the payment was made, if DLPC's claim is found to be meritorious.

In the event that a power bill remains unpaid within five days after its due date, NPC has the option to call on or draw against the security deposit delivered by DLPC under the terms of the DLPC Supply Contract. Any power bill or account of DLPC not paid on due date shall bear a floating rate of interest, based on the non-prime lending rate of certain reference banks. If the account of DLPC is overdue for more than six months, DLPC shall pay an additional penalty of 1.0% per month for every additional month of delay beyond six months.

In addition to the penalty interest charges and without prejudice to its right to terminate the agreement, NPC shall have the right, subject to not less than seven days advance written notice to DLPC, to discontinue supplying electric services and to refuse to resume electric service for failure of DLPC to post the required security deposit, for non-payment of bills, or if any amount including any accrued interest and other charges not necessarily limited to the foregoing, remains unpaid. Notwithstanding such discontinuance of electric service, DLPC shall pay at least the minimum charge based on the contracted energy, and failure by DLPC to make full payment within a period of six months shall entitle NPC to terminate the DLPC Supply Contract without prejudice to the right of NPC to recover unpaid bills and other penalties from DLPC.

Either party has the right to terminate the DLPC Supply Contract upon failure of the other to perform its obligation under the DLPC Supply Contract, provided that the party at fault will have to pay all its outstanding accounts and reimburse the costs incurred by the other party as a result of the termination.

Should NPC enter into any transaction, contract, memorandum of agreement, or any other arrangement with other electric distribution utilities or other entities similarly situated as DLPC, on terms and conditions more beneficial than those contained in the DLPC Supply Contract, NPC agrees that such terms and conditions shall be deemed applicable to DLPC upon request.

NPC acknowledges the right of DLPC to distribute electricity to all persons and entities within the coverage of its franchise area and hereby agrees that it shall not provide new direct electricity connections to any person or entity within the franchise area of DLPC without the prior written consent and waiver of DLPC or an authority for direct connection from the ERC but without prejudice to the implementation of Retail Competition and Open Access.

Transmission Services Agreement between DLPC and Transco

On June 26, 2006, DLPC entered into a TSA with Transco under the terms of which Transco agreed to provide transmission services in support of the DLPC Supply Contract between NPC and DLPC, whereby NPC agreed to provide, and DLPC agreed to take and pay for 237,696 kW and 130,000,000 kWh of capacity and energy, respectively.

The TSA took effect on June 26, 2006 and shall continue to be in full force and effect until February 25, 2009 or when terminated in accordance with the OATS Rules. Certain modules of the OATS Rules shall form part of the TSA and shall govern the provision of power delivery service and ancillary service by Transco to DLPC. The TSA is the "connection agreement" required by the Grid Code.

Under the TSA, DLPC is required to deliver a security deposit to Transco in the amount of ₱66.06 million which is equivalent to approximately one month of power delivery services and other related fees. Should DLPC enter into additional contracts for the supply of electric energy which increases the total monthly consumption, DLPC must post an additional security deposit in an amount proportionate to the new energy supply contracts.

Memorandum of Agreement between DLPC and Transco

On July 13, 2005, DLPC entered into a memorandum of agreement with Transco which sets out the terms and conditions governing DLPC's operation of its backup power plant, the Bajada power plant, in order to make available reactive power support for the consumers of DLPC and the Mindanao Grid in the event of power shortages and/or low voltage situations, when so required by Transco.

Under the memorandum of agreement, DLPC undertook, on a best efforts basis, to provide the reactive power support, at 80.0% power factor, to the Mindanao Grid by operating the Bajada Power Plant upon the occurrence of power shortages, low voltage and/or power interruptions in the Mindanao Grid, provided, that such shortage and interruptions are not adequately addressed by the available capacity in the Mindanao Grid, as confirmed by Transco, and provided further, that, in all cases, the availability of such reactive power support for the Mindanao Grid will always be subject to back-up requirements of DLPC's customers and/or DLPC's system requirements.

When so requested by Transco to provide reactive power support requirements, the operation of the Bajada power plant is subject to the dispatch instructions of Transco. For this purpose, the parties have agreed to establish an operating protocol to govern the dispatch of the Bajada power plant.

The memorandum of agreement took effect on January 15, 2007, the date of the approval thereof by the ERC. The memorandum of agreement shall remain in full force and effect until terminated by either party through a written notice to that effect to the other Party at least 90 days prior to the intended termination date.

Since the reactive power support will be provided on a non-firm basis, the parties agreed that billing will be based on actual power (capacity and energy) delivered by the Bajada power plant. DLPC's billing, for such reactive power support services actually provided by it, is based on the fixed operation and maintenance cost (₱/kW) and the variable cost (₱/kWh) of the Bajada power plant for a billing period corresponding to Transco's own billing period for DLPC. The total cost for the reactive power support services will be passed on and billed to Transco's load customers in the Mindanao Grid and be reflected as reactive power support charge under the Transco power bill.

PSA between DLPC and the Consortium of Hedcor, PHC, Hedcor Sibulan, and Hedcor Tamugan (the "Consortium")

On March 7, 2007, DLPC and the Consortium entered into a PSA whereby the Consortium, on a build-own-operate basis, agreed to develop, finance, build, operate and maintain a power plant and the corresponding delivery facilities to be located within southeastern Mindanao. The power plant, which will supply the 400,000,000 kWh per year of contracted energy required by DLPC, will be exclusively dedicated for the supply to and use of DLPC for the entire term of the PSA. The term of the PSA is from March 7, 2007 to the last day of the 12th year from August 1, 2009. The term may be adjusted, extended, or terminated in accordance with the PSA.

The delivery of the contracted energy is in two phases. The first phase ("Phase I Supply"), whereby 200,000,000 kWh per year of Net Expected Energy will be delivered, has a target completion date of August 1, 2009. The second phase ("Phase II Supply"), whereby the additional 200,000,000 kWh per year of Net Expected Energy will be delivered, has a target completion date of August 1, 2010. Net Expected Energy refers to the quantity of electricity generated by the project net of electricity used by the project, site usage, and step up transformer and transmission losses up to the delivery/meter points, which points are to be agreed upon by the parties.

The Consortium is responsible for obtaining all government consents and environmental approvals required for the project, preparing the environmental impact assessment, acquisition of the site for the project, the supply of fuel to the power plant, and enter into a contract with Transco to enable DLPC to take electricity from the power plant. The Consortium will provide DLPC with a ₱200 million performance bond which the Consortium will maintain throughout the term of the PSA.

The effective date of the PSA is the first business day immediately following the day DLPC issues the certificate of effectivity after the necessary corporate approvals, government consents, legal opinions, and the performance bond, have been obtained or paid by the party responsible therefor. If the effective date does not occur within 6 months from March 7, 2007, the PSA will be deemed terminated unless the parties waive the aforesaid conditions for the effective date or the parties agree to an extension thereof.

The bid price for the contracted energy is ₱4.0856 per kWh (the "Fee"). This is adjusted based on the Philippine consumer price index.

If the Consortium indicates its readiness to commence Phase I Supply within three months prior to its target completion date and the conditions for the commencement of the commercial operation period have been satisfied, DLPC must take or pay for the electricity at a rate or price equivalent to the Fee. Such date of commencement of delivery shall be the first day of the commercial operations period.

If the Consortium indicates its readiness to commence Phase I Supply earlier than three months prior to its target completion date, DLPC has the option to take the electricity at such date and pay only for the actual energy delivered at such rate or price equivalent to the lowest total price, as delivered, or DLPC's total avoided cost based on electricity available to DLPC from other suppliers. For electricity delivered within three months prior to the target completion date, the Fee shall apply and the first date of delivery within the three-month period shall be the first date of the commercial operations period.

If the Consortium indicates its readiness to commence Phase II Supply within three months prior to its target completion date, DLPC must take or pay for the electricity at a rate or price equivalent to the Fees.

If the Consortium indicates its readiness to commence Phase II Supply earlier than three months prior to its target completion date, DLPC has the option to take the electricity at such date and pay only for the actual energy delivered at such rate or price equivalent to the lowest total price, as delivered, or DLPC's total avoided cost based on electricity available to DLPC from other suppliers. Such rate shall apply to electricity actually taken by DLPC from the Consortium in excess of the Net Expected Energy for Phase I Supply. For electricity delivered within three months prior to the target completion date, the Fee shall apply.

In all instances of early commencement, the Consortium is prohibited from offering and/ or selling any remainder or available capacity not taken by DLPC to a third party. Otherwise, DLPC may terminate the PSA.

Except in cases of force majeure, in the event the Consortium, through no fault of DLPC, fails to achieve a project milestone during the construction period of the project for a period not exceeding 60 days after its target completion date, the Consortium must pay DLPC a penalty in the amount of the Fee, calculated on a daily basis, for each day of delay until the said milestone is achieved. Such payments are secured by and limited to the performance bond. In the event the delay exceeds the 60 day period, DLPC may terminate the PSA. Milestones during the construction period of the project include: the creation of a steering committee, submission of system impact study and grid impact study, finalization of test protocols, connection agreement, testing for Phase I and II Supply, procurement of insurance, other milestones for construction.

Except in cases of force majeure, in the event there is a delay in achieving the target completion date for Phase I Supply, the following shall occur: (a) if the delay is caused by a delay in obtaining the ERC approval, the target completion date shall be adjusted by a period corresponding to the delay and the Consortium will be allowed a one time adjustment in the computation of Fees; (b) if the delay for a period

not exceeding 60 days after the target completion date, is due to the fault of the Consortium through no fault of DLPC, the Consortium must pay DLPC a penalty in the amount of Fee computed on a daily basis for each day of delay and such payment is secured by the performance bond; (c) if the delay exceeds the 60-day period, DLPC may terminate the PSA.

For other causes of delay and if the power plant would otherwise have been ready for testing had the Consortium issued the notice of testing, then the Consortium shall be entitled to declare, by written notice to DLPC, that the commercial operations period has commenced at the first business day after the target commercial operations date. In this case, supply of electricity and the Fee and charges shall take effect in spite of non-delivery of electricity at the delivery points. The Fee shall be calculated, but the basis thereof shall be adjusted, as necessary, as soon as the power plant has been tested and the testing of the generating units for Phase I Supply has been completed and actual delivery of electricity from the project has commenced.

Except in cases of force majeure, in the event there is a delay in achieving the target completion date for Phase II Supply, the following shall occur: (a) if the delay for a period not exceeding 60 days after the target completion date, is due to the fault of the Consortium through no fault of DLPC, the Consortium must pay DLPC a penalty in the amount of the Fees, calculated on a daily basis, for each day of delay and such payment is secured by the performance bond; (b) If the delay exceeds the 60-day period, DLPC has the option to adjust the Net Expected Energy for the remainder of the term of the PSA to be equivalent to Phase I Supply or to terminate the PSA. In case the Net Expected Energy is adjusted, the Consortium is prohibited from offering or selling to a third party any additional energy above the adjusted Net Expected Energy within five years after the lapse of the 60-day period. Otherwise, DLPC may terminate the PSA.

Any late payment by DLPC is subject to interest which is calculated based on the prevailing rate for the 91-day Government treasury bill or rate for the shortest term Government treasury bill prevailing as of the due date. If the delay exceeds 30 days from due date, the penalty is doubled.

In the event that the Consortium sells or offers to sell to third parties electricity from the power plant in excess of the Net Expected Energy, the Consortium may not sell or offer to sell at a price lower than the Fee. Otherwise, the Fee shall be deemed adjusted and DLPC will pay the Consortium at the lowest rate by which the Consortium sold or offered to sell such excess electricity to a third party, without prejudice to the rights of DLPC to terminate the PSA.

In case the Consortium fails to supply the contracted energy, DLPC shall have the right to seek alternative supply from third parties or from its own back-up power facility. The Consortium is not liable for an excess or deficiency of supply of electricity within a 10.0% deviation range. Except for cases of force majeure or default by DLPC, if the excess or deficiency exceeds the 10.0% deviation range, the Consortium must pay DLPC for each day of failure to supply the contracted energy a penalty in the amount of Fees computed on a daily basis or in proportion to the extent of the deficiency, and an amount equivalent to the cost of supplying the energy from a third party. The total shall be automatically deducted from the performance bond.

In case of termination of the PSA, the non-defaulting party is entitled to a termination fee. In case of default by the Consortium, the termination fee is equivalent to the amount outstanding in the performance bond plus 10.0% of the performance bond in its full amount. In case of default by DLPC: (a) after the effective date and before commercial operations date, the termination fee is equivalent to the aggregate of all project and project related costs actually incurred as of the date of default; and (b) during the commercial operations period, the termination fee is equivalent to the amount outstanding in the performance bond at termination date. Notwithstanding payment of the termination fee, both parties shall remain liable for any amounts due prior to receipt of the termination notice.

For the period that DLPC has the obligation to comply with Section 45(c) the EPIRA, the parties must submit their payment obligations to the settlement process under the WESM Rules. The parties must amend the PSA for its continued operation under WESM.

Either party may assign its rights and obligations under the agreement upon the written notice to and consent of the other party. If the assignment is in favor of a subsidiary, prior notice is sufficient. This notwithstanding, the Consortium may assign its rights and obligation to lenders for purposes of arranging financing for the power plant subject only to written notice to DLPC. Such assignment to lenders shall not relieve the Consortium of its obligations under the PSA.

CLPC

Contract for the Supply of Electric Energy between NPC and CLPC

On December 21, 2005, CLPC entered into a contract for the supply of electric energy (the "CLPC Supply Contract") with NPC. Under the CLPC Supply Contract, NPC will supply CLPC with electricity from September 26, 2005 until December 25, 2015.

The contracted energy or the energy in kWh allocated by NPC to CLPC within the contract period shall not be changed by either party except in cases as provided for in the CLPC Supply Contract. The contracted energy from 2006 to 2015 shall be a total of 116,906 MWh per year.

The terms and conditions of the CLPC Supply Contract are substantially the same as those of the Supply Contract between NPC and DLPC summarized above.

SEZ

Contract for the Supply of Electric Energy between NPC and SEZ

In 2005, SEZ entered into a contract for the supply of electric energy (the "SEZ Supply Contract") with NPC. Under the SEZ Supply Contract, NPC will supply SEZ with electricity for a period of two and a half years, from September 26, 2005 to March 25, 2008, renewable for another two and a half years upon the mutual agreement of the parties.

The contracted energy or the monthly energy in kWh allocated by NPC to SEZ within the contract period shall not be changed by the parties, except otherwise provided in the SEZ Supply Contract. The contracted energy shall not, in any case, be lower than 90,000,000 kWh per annum.

Other than the terms and conditions discussed in this section, the SEZ Supply Contract are substantially the same as those of the DLPC Supply Contract summarized above.

Under the SEZ Supply Contract, a flat generation rate of US$0.0668 per kWh will be applied to SEZ's monthly energy consumption but in no case will such consumption be lower than the contracted energy. Upon the nationwide removal of the prompt payment discount as determined by NPC, the flat generation rate will be adjusted to US$0.0648 per kWh. The electricity price is exclusive of Transco, ancillary service and VAT.

Upon commercial operation of the WESM, the adjustment mechanism will be subject to agreement between the parties. In the event the price of electricity from the WESM is lower than the prevailing NPC bulk rate, the parties will renegotiate for a lower bulk price for SBFZ. SEZ's consumption in excess of contracted energy will be deemed supplied by the WESM and will be settled based on ERC approved price determination methodology under WESM Rules.

Should SEZ request for a reduction of the contracted energy to a level below 90,000,000 kWh per annum, the parties will renegotiate an upward adjustment in the rate to account for the reduced load; the renegotiated rate may not be higher than the prevailing NPC regular rate, inclusive of all ERC-approved adjustments. Should SEZ request for an upward adjustment in contracted energy, the electricity price shall be reduced in accordance with the schedule specified in the SEZ Supply Contract.

On March 26, 2008, SEZ entered into a contract for the supply of electric energy (the "SEZ Supply

Contract") with NPC. Under the SEZ Supply Contract, NPC will supply SEZ with electricity for a period of 3 years, from March 26, 2008 to March 25, 2011. Unless otherwise stipulated in the SEZ Supply Contract, the applicable provisions thereof shall be deemed modified by the applicable WESM Rules, upon commercial operation of the WESM, as declared by the DOE.

The contracted energy or the energy in kWh allocated by NPC to SEZ within the contract period shall not be altered by either party except as provided for in the SEZ Supply Contract. The contracted energy from March 26, 2008 to March 25, 2011 shall range from 15,233,848 kWh per month to 18,459,378 kWh per month.

Under the terms of the SEZ Supply Contract, NPC will supply the contracted energy in accordance with good utility practice and in compliance with appropriate rules and regulations such as the Philippine Grid Code and Open Access Transmission Service (OATS). The supply of energy will be available except for interruption or reduction due to causes beyond the control of NPC, transmission failure, and maintenance to ensure system stability and safety reasons as may be provided by laws, rules or regulation. In case of shortage in the generation capacity of the NPC, SEZ shall be informed of the deficiency and allocation of the available supply of electricity to SEZ shall be proportionate to the contracted energy.

SEZ may be allowed to increase its contracted energy in the event another customer of NPC assigns its contracted energy to SEZ with the approval of NPC; or SEZ wants to increase its energy requirement from NPC. SEZ may apply for increases in contract energy requirement through an amendment of the contracted energy, subject to the approval of NPC. SEZ is also required to seek the approval and certification from Transco that the transmission, sub-transmission, substation and other facilities are able to accommodate the increase in its power requirements.

SEZ is entitled to reduce its contracted energy generally upon written application to NPC and payment of the buy-out fee. The buy-out fee is equivalent to the present value of the fixed cost component of the applicable generation rate schedule or price of electric energy including adjustments of the reduction in the contracted energy sought at a discount rate equivalent to the prevailing 91-day Philippine Treasury Bill rate.

SEZ may be allowed to reduce its contracted energy without the payment of the buy-out fee under certain circumstances, including reasons beyond its control, such as closure of companies within the zone, reduction of locators' production requirements, and/or availment of open access by locators. The decrease should not result in an annual contract energy below the minimum level of 187.5 GWh to qualify for the initial flat generation rate.

NPC may assign or transfer part or all of its rights and obligations in the supply of contracted energy to any entity, provided that written notice is given to SEZ 30 days before the actual transfer. SEZ may assign, sell or transfer a part or all of its contracted energy either permanently or for a certain number of billing periods, under certain circumstances and subject to the written consent of NPC, which consent shall not be unreasonably withheld. The transfer by SEZ of all the contracted energy will relieve SEZ of all its rights and obligations to NPC, provided that SEZ has paid all its outstanding obligations to NPC.

Under the SEZ Supply Contract, a flat generation rate shall be initially pegged at ₱3.4742 per kWh. A lower flat generation rate may apply depending on the level of committed annual contract energy as provided in the SEZ Supply Contract. The flat generation rate is subject to additional charges including franchise and benefits to host communities charge, deferred accounting adjustments, and any new charge/s resulting from new ERC-prescribed and approved cost adjustment mechanism/s other than GRAM and ICERA.

Upon commercial operation of the WESM, the adjustment mechanism will be subject to agreement between the parties. In the event the price of electricity from the WESM is lower than the prevailing NPC flat generation rate, the parties will renegotiate for a lower bulk price for Subic Bay Freeport Zone.

Should SEZ request for a reduction of the contracted energy to a level below the minimum level of its

annual contracted energy, the parties will renegotiate an upward adjustment in the rate to account for the reduced load; the renegotiated rate shall not be higher than the prevailing NPC regular rate.

Under the terms of the SEZ Supply Contract, SEZ shall pay a minimum charge based on the contracted energy per billing period using the basic energy charge, even if SEZ has not fully taken or failed to consume the contracted energy, subject to deductions and adjustments as expressly provided for in the SEZ Supply Contract.

Should the supply of electricity be interrupted or curtailed to a level below the contracted energy due to the fault or lack of generation capacity of the NPC, even if SEZ was at that time unable to take or consume electricity, the contracted energy shall be adjusted. Contracted energy not taken due to SEZ's fault or negligence or other causes affecting SEZ's ability to take or consume electricity shall not entitle SEZ to interruption adjustments.

SEZ may avail of a service adjustment in the contracted energy during the scheduled maintenance of its facilities, not to exceed two billing periods in one year. The minimum charge on the energy consumption is 50.0% of the contracted energy. To be able to avail of this adjustment, SEZ must inform NPC in writing 30 days prior to the commencement of the scheduled maintenance.

Disputed bills shall be questioned in writing by SEZ within 60 days from the date of its receipt and NPC shall act on such disputed bills on a best effort basis and commit to resolve the claim within 60 days from the date of filing of the claim. Failure by SEZ to question the power bills on time shall constitute a waiver by SEZ of any claim on such bills. Disputed bills are required to be paid by SEZ without deductions or offsets and NPC shall evaluate the claim and adjust the billings in accordance with its findings. SEZ is entitled to a refund of any overpayment plus interest equivalent to the 91-day T-Bill rate from the date that the payment was made, if SEZ's claim is found to be meritorious.

In the event that a power bill remains unpaid within five days after its due date, NPC has the option to call on or draw against the security deposit delivered by SEZ under the terms of the SEZ Supply Contract. Any power bill or account of SEZ not paid on due date shall bear a floating rate of interest, based on the non-prime lending rate for each quarter of the Land Bank of the Philippines or the Philippine National Bank, whichever is higher. If the account of SEZ is overdue for more than six months, SEZ shall pay an additional penalty of 1.0% per month for every additional month of delay beyond six months.

In addition to the penalty interest charges and without prejudice to its right to terminate the agreement, NPC shall have the right, subject to not less than seven days advance written notice to SEZ, to discontinue supplying electric services and to refuse to resume electric service for failure of SEZ to post the required security deposit, for non-payment of bills, or if any amount including any accrued interest and other charges not necessarily limited to the foregoing, remains unpaid. Notwithstanding such discontinuance of electric service, SEZ shall pay at least the minimum charge based on the contracted energy, and failure by SEZ to make full payment within a period of 6 months shall entitle NPC to terminate the SEZ Supply Contract without prejudice to the right of NPC to recover unpaid bills and other penalties from SEZ.

Either party has the right to terminate the SEZ Supply Contract upon failure of the other to perform its obligation under the SEZ Supply Contract, provided that the party at fault will have to pay all its outstanding accounts and reimburse the costs incurred by the other party as a result of the termination.

Should NPC enter into any transaction, contract, memorandum of agreement, or any other agreement with other electric distribution utilities at terms and conditions more beneficial than those contained in the SEZ Supply Contract, NPC agrees that such terms and conditions shall be deemed applicable to SEZ upon request.

NPC shall not offer, negotiate for or provide direct electricity connections with the locators within the franchise area of SEZ who have existing and valid energy supply contracts with SEZ, subject to the provisions of EPIRA on Retail Competition and Open Access.

Transmission Services Agreement between SEZ and Transco

On April 7, 2006, SEZ entered into a TSA with Transco under the terms of which Transco agreed to provide transmission services in support of the SEZ Supply Contract. The TSA took effect on March 26, 2006 and will expire on March 25, 2008 or until otherwise terminated in accordance with the OATS Rules.

Certain Modules of the OATS Rules form part of the TSA and govern the provision of Power Delivery Service and Ancillary Service by Transco to SEZ. The TSA is the connection agreement required by the Grid Code.

Under the TSA, SEZ is required to provide the security deposit in favor of Transco, in the amount of ₱6.107 million which is equivalent to one month of power delivery services and miscellaneous fees. Should SEZ enter into additional contracts for the supply of electric energy which increases the total monthly consumption, SEZ must post additional security deposit in an amount proportionate to the new energy supply contracts.

SFELAPCO

Transmission Services Agreement between SFELAPCO and Transco

On July 1, 2006, SFELAPCO entered into a TSA with Transco for the provision of transmission services in support of the Contract for the Supply of Electric Energy between SFELAPCO and NPC dated as of September 2005. The TSA took effect on July 1, 2006 and is valid until September 25, 2010 or when terminated in accordance with the OATS Rules. Certain modules of the OATS Rules form part of the TSA and govern the provision of power delivery service and ancillary service by Transco to SFELAPCO.

Under the TSA, SFELAPCO is required to provide a security deposit to Transco in the amount of ₱30.5 million, which is equivalent to the highest of SFELAPCO's power bill for the 12 months preceding the date of the agreement. If SFELAPCO enters into additional contracts for the supply of electrical energy which increases SFELAPCO's total monthly consumption, SFELAPCO is required to post an additional security deposit in an amount proportionate to the new energy supply contracts.

VECO

Electric Power Purchase Agreement with Toledo Power Corporation (TPC) and the Amendment Agreement

On November 19, 2002, VECO entered into an electric power purchase agreement with TPC wherein TPC agreed to supply and VECO agreed to purchase electricity sourced from the Toledo power station. The term of the electric power purchase agreement is for a period of 12 years commencing on November 11, 2003.

Under the electric power purchase agreement, minimum energy off-take is 18,000,000 kWh per month, which is based on 35 MW block power during the peak hours. The minimum off-take may be reduced from time to time by TPC upon notice to VECO and VECO's written conformity to such notice of reduction. VECO may, at its option, request TPC to deliver electricity in excess of the minimum energy off-take.

During the term of the electric power purchase agreement, TPC has agreed to supply VECO the minimum energy off-take, on a take or pay basis each billing month. If, however, at any time during the term of the electric power purchase agreement, there shall be system constraints affecting the ability of Transco to provide the transmission and ancillary services for power delivery to VECO, TPC may be required to deliver only that which can be accommodated by Transco.

Subject to Transco's system constraints, TPC has agreed to supply to VECO a guaranteed daily dispatchable capacity of 35 MW during peak hours of VECO's system, which guaranteed daily

dispatchable capacity may be reduced upon a reduction of the minimum energy off-take by TPC and VECO.

In the event that TPC is unable to supply the guaranteed daily dispatchable capacity during peak hours for reasons solely attributable to TPC, TPC is required to pay for the cost of the actual shortfall. Any additional transmission and ancillary service charges incurred as a result of the provision of power to meet the shortfall of TPC to VECO shall also be for the account of TPC.

The electricity price to be paid by VECO to TPC for the minimum energy off-take (less the agreed transmission line loss in kWh) and any additional off-take delivered is equal to NPC's ERC-approved unbundled total generation tariff rates and charges for the Visayas Grid, provided that if there are ERC-approved NPC rates and charges for the customer class and/or under the appropriate sub-grid in the Visayas Grid to which utilities such as VECO belongs, then the ERC-approved NPC rates and charges for such customer class and/or sub-grid shall be the applicable electricity price. The electricity price does not include the power delivery and ancillary service charges. It is understood that when generation rates and charges are adjusted by the ERC, the electricity price will be adjusted automatically.

In the event that the actual energy off-take of VECO is less than the minimum energy off take for reasons attributable to VECO, then VECO shall pay electricity fees equal to the minimum energy off-take multiplied by the applicable electricity price. Except in case of force majeure, in the event that the actual energy delivered to VECO for a billing month is less than the minimum energy off-take for reasons attributable solely to TPC, where the electricity price is less than the actual cost to VECO of the shortfall in energy delivered, TPC shall reimburse VECO within 15 days from receipt of VECO's invoice therefor, an amount equal to the difference between the actual cost to VECO of sourcing the shortfall from another source and the electricity price, multiplied by the actual shortfall.

TPC has agreed to pay to VECO an amount corresponding to the mandatory rate reduction that VECO would have received from NPC in connection with that portion of VECO's power supply requirements previously sourced from NPC which will henceforth be sourced by VECO from TPC pursuant to the electric power purchase agreement. Mandatory rate reduction refers to the reduction of NPC rates applicable to electric distribution utilities sourcing their power, supply entirely from NPC by an amount which, when passed on to the residential customers of said distribution utilities, will be equivalent to ₱0.30 per kWh. For distribution utilities that obtain a portion of their power supply from sources other than NPC, the said reduction shall be proportionate to NPC's contribution to their power supply requirements.

On November 16, 2004, TPC issued a notice to VECO indicating that TPC has been incurring losses based on the electricity tariff in effect, and pursuant to Article 6.1(a) of the EPPA, which entitles TPC to request for amendments to preserve and/or restore its interests and to terminate the contract if no agreement is reached. As a result, VECO and TPC agreed to further restate and clarify the EPPA by executing an Amendment Agreement, effective on May 16, 2006. Pursuant to the Amendment Agreement, TPC shall supply and VECO shall purchase a minimum energy off-take of 18 million kWh per billing month. The price for the electricity shall be equivalent to the NPC's ERC-approved unbundled total generation tariff rates and charges for the Visayas Grid, provided that if there are ERC approved NPV rates and charges for the customer class and/or under the appropriate sub-grid in the Visayas Grid to which utilities such as VECO belongs, then the ERC-approved NPC rates and charges for such customer class and/or sub-grid shall be the applicable electricity price.

Transmission Services Agreement with Transco

On February 24, 2003, TPC and Transco executed a TSA for the provision of power delivery and ancillary services in respect of the delivery of power from the Toledo Power Station to VECO. On December 2, 2005, TPC and VECO executed a deed of assignment wherein TPC assigned, and VECO assumed, TPC's rights and obligations under the TSA.

PPA between VECO and CPPC

On February 7, 1997, VECO entered into a PPA with CPPC with respect to the development, design, construction, installation, rehabilitation, financing, commissioning, operation and maintenance of the following facilities under a BOT scheme: (i) a new diesel-fired electric generating plant with a rated capacity of approximately 51.1 MW to be located in Cebu; (ii) a power plant of VECO located in Cebu to be rehabilitated to maintain a rated capacity of approximately 20 MW capacity; and (iii) the transformation and switching equipment from the voltage to VECO's 69 KV system. Under the BOT scheme, CPPC will cause the facilities to be designed, developed, financed, constructed, installed, erected, including civil works within the site, rehabilitated, completed, tested and commissioned at its own cost. At the end of the term of the PPA, ownership of the facilities will be transferred to VECO.

The PPA is for a period of 15 years commencing from the date the CPPC plant commences commercial operations, which was on November 25, 1998. During this 15-year period, CPPC has ownership over the new power plant and all the fixtures, fittings, machinery and equipment on site used in relation to the new power plant, and the fixtures, fittings, machinery and equipment used and purchased by CPPC in order to rehabilitate the rehabilitated plant.

At the end of each 12-month period from the start of commercial operations of the new power plant, CPPC shall recognize the accrued interest of VECO in the facilities equivalent to 1/15 of the appraised value of the facilities, such that on the transfer date, the accrued interest of VECO in the facilities shall be equivalent to 100% of the appraised value. The value of the facilities shall be determined by an appraiser mutually acceptable to the parties.

VECO agreed to accept and purchase at a designated metering point the minimum off-take and minimum guaranteed energy supply which is currently a minimum of 33,791.67 MWh per month, or an aggregate of 405,500 MWh per year, which is 75.0% load factor of the increased capacity of 61.72 MW net electric output. The metering point is the high voltage side of the 13.8-69 KV step-up transformer where net electrical output is measured. The minimum off-take by VECO is determined on a monthly basis.

Except for any shortfall in electricity supply that is due to force majeure, in the event the Facilities fail to meet the minimum guaranteed energy supply in any month of the contract year, for cause attributable to CPPC, then CPPC is required to pay VECO a reimbursement for the shortfall on the succeeding month.

Under the PPA, CPPC agreed to supply VECO a guaranteed daily dispatchable capacity of 61.72 MW daily during peak hours of VECO's system, except on Sundays and non-working holidays from the day following the end of the 18th month from the commercial operation of the new power plant until the expiration of the term of the PPA.

The guaranteed daily dispatchable capacity is the maximum demand averaged over 15 minutes as measured at the metering point.

In the event that CPPC is not able to attain the guaranteed daily dispatchable capacity, for reasons attributable to CPPC, CPPC must pay an amount equivalent to the actual shortfall in MW corresponding to the time and date of NPC's single highest billing demand for the month to VECO multiplied by NPC's demand charge. CPPC must pay the foregoing on the month immediately following the month in which the shortfall occurred.

The electricity price is capped at 98.0% of the effective NPC billing rate to VECO based on contracted demand and energy, prior to the imposition of any penalties on VECO for violation of its supply contract with NPC or other suppliers, if any, net of the primary voltage discount and power factor adjustment. From the start of commercial operations of the new power plant and continuing throughout the term of the PPA, VECO shall pay to CPPC on a monthly basis an amount equal to the actual off-take multiplied by the electricity price and provided, however, that, in the event that VECO's actual monthly off-take is less than the minimum off-take for reasons attributable to VECO, VECO shall pay instead an amount equal to the minimum off-take multiplied by the electricity price; and provided, further that, VECO shall not be liable to

pay such amounts for any shortfall in electricity off-take that is due to force majeure. The current NPC billing rate to VECO is ₱3.20 per kWh.

VECO shall be entitled, by immediate deduction upon payment, to a prompt payment discount equal to 3.0% on any amount paid to CPPC on or before the 15th of the calendar month following the preceding Billing Period, provided that VECO has no unpaid fees including any interest thereon. Any amount required to be paid under the PPA that is not paid on the due date shall be charged interest computed from the first day after it becomes due and payable at a rate per annum equal to the then current 91-day T-bill rate plus 4.0%.

In the event that CPPC's actual energy supply is less than the minimum guaranteed energy supply for reasons attributable to CPPC, where the electricity price is less than such actual cost of VECO, CPPC has agreed to reimburse VECO by the following month in an amount equivalent to the difference between the actual cost to VECO of sourcing the shortfall from NPC or another source over the electricity price multiplied by the actual shortfall.

Subsequent Agreements between VECO and CPPC

In order to resolve disputes that had arisen between VECO and CPPC regarding the rates payable under the VECO-CPPC PPA that had been raised to the ERC, on June 2, 2004, VECO and CPPC entered into an interim agreement as directed by the ERC. The interim agreement was for a period of one year and was intended as a temporary measure adopted for the sole purpose of enabling CPPC to recover its costs.

Upon the expiration of the interim agreement, on June 23, 2005, VECO and CPPC signed a temporary letter-agreement which commenced on June 25, 2005 and would expire either five months thereafter or until VECO and CPPC are able to arrive at a mutually acceptable revised interim agreement that has been provisionally or permanently approved by the ERC, whichever comes earlier. Under this letter-agreement, CPPC agreed to charge VECO energy fees based on actual generation rather than on the minimum offtake under the VECO-CPPC PPA, although VECO is required to take reasonable steps to draw only up to a maximum of 33,791.67 MWh per month. In the event that VECO requires energy in excess of 33,791.67 MWh in any given month, CPPC shall provide such excess, only if CPPC is able to provide the same in a manner that is cost efficient to it. All other provisions of the PPA remained binding on VECO and CPPC. When the letter agreement expired, VECO and CPPC mutually agreed that VECO shall temporarily advance the cash cost necessary to keep CPPC's plant operational. This arrangement was approved by the ERC.

Supplement to the PPA

On September 1, 2006, VECO and CPPC signed a Supplement to the PPA, which became effective on December 29, 2006 and which is co-terminus with the original PPA. The parties agreed to retain the original electricity price under the PPA (i.e., at 98.0% of the effective NPC billing rate to VECO based on contracted demand and energy), provided, that in no case will the applicable electricity tariff be lower than the new agreed formula pricing scheme.

The parties also agreed to remove the prompt payment discount granted to VECO under the PPA, as well as the minimum offtake requirement in order to allow VECO to judiciously dispatch CPPC in a manner that has the least financial effect on VECO's customers. Instead CPPC shall only charge VECO for the actual energy delivered in accordance with the actual dispatch of CPPC by VECO. Nevertheless, CPPC is required to guarantee the availability of 61.72 MW of capacity at all times to VECO and VECO will pay CPPC capacity fees based on the capacity in MW made available by CPPC to VECO in a given billing month.

VECO and CPPC Deed of Usufruct

On November 25, 1998, VECO and CPPC entered into a deed of usufruct over several parcels of land in Cebu City with a total land area of 15,676 square meters and land improvements thereon. The said parcels of land are owned by VECO and were intended to be the site of the CPPC power plant pursuant to the PPA between VECO and CPPC. The usufruct is for a period of fifteen years from November 25, 1998 but is nevertheless co-terminus with the PPA between VECO and CPPC and the Shareholders' Agreement signed by VECO and EAUC on September 3, 1997. CPPC enjoys the full and interrupted use of properties held in usufruct subject to the condition of preserving its form and substance. CPPC's rights under the deed of usufruct are not transmissible to any person without the written consent of VECO. Except for the lands, CPPC may mortgage the equipment and improvements given in usufruct provided that in case of foreclosure, CPPC must pay VECO the appraised value of the foreclosed property at the time of the mortgage.

Contract for the Supply of Electric Energy between NPC and VECO

On December 21, 2005, VECO entered into a contract for the supply of electric energy (the "VECO Supply Contract") with NPC. The VECO Supply Contract, consisting of the Transition Supply Contract and the Regular Bilateral Contract shall remain in full force and effect from September 26, 2005 to June 25, 2009. On December 13, 2006, NPC agreed to amend the term of the VECO Supply Contract and extend it up to December 2010. Unless otherwise provided, the applicable provisions of the VECO Supply Contract shall be deemed modified by the applicable WESM Rules, upon commercial operation of the WESM, as declared by the DOE.

Contracted energy or the energy in kWh allocated by NPC to VECO within the contract period shall not be changed by either party except in cases as provided for in the VECO Supply Contract. The contracted energy from 2006 to 2008 shall be a total of 1,177,819 MWh per year. For 2009, the contracted energy is 109,782 MWh.

Except for the terms specified below, the terms and conditions of the VECO Supply Contract between NPC and VECO are substantially the same as those of the DLPC Supply Contract summarized above.

The ERC-approved generation rates and other charges exclusive of penalties, bonuses, shall be applied to VECO's contracted monthly or hourly energy consumption. Prior to the commercial operation of the WESM, for consumption higher than 120.0% of the contracted level, the basic energy charge to be applied shall be the prevailing ERC approved rate and other adjustments plus 20.0% of such rate for the incremental increase in consumption beyond 120% of contracted energy. Upon the commercial operation of the WESM, the basic energy charge to be applied to the contracted energy shall be in accordance with the price settlement mechanism of the VECO Supply Contract. For 2006, the average NPC billing rate to VECO was ₱3.2966 per kWh.

VECO is required to pay the minimum charge based on the contracted energy per billing period using the basic energy charge if VECO has not fully taken or failed to consume the contracted energy, subject to deductions and adjustments as expressly provided for in the VECO Supply Contract.

TSA between VECO and TRANSCO

On June 26, 2006, VECO entered into a TSA with Transco. The TSA took effect on June 26, 2006 and shall continue to be in full force and effect until June 25, 2009 or when terminated in accordance with the OATS Rules.

Certain modules of the OATS Rules shall form part of the TSA and shall govern the provision of power delivery service and ancillary service by Transco to VECO. The TSA is the "connection agreement" required by the Grid Code. The TSA is subject to existing laws, policies, rules and regulations, administrative orders emanating from the DOE, the ERC, other government agencies or authorized bodies, and any amendment of such regulations shall be deemed incorporated in the TSA.

On January 10, 2007, SNAP-Magat entered into the Asset Purchase Agreement with PSALM under the terms of which, PSALM agreed to sell to SNAP-Magat the 360 MW Magat hydroelectric power plant located in Ramon, Isabela and all the other assets related thereto including equipment in the plant and substations, but not including the dam or intake structure, that are more particularly described in the Asset Purchase Agreement. The purchase price was US$530 million. Legal title to the purchased assets will transfer to SNAP-Magat after full payment date and upon execution of the deed of absolute sale by the parties. Full payment date refers to the date when SNAP-Magat has fully and completely paid the purchase price and discharged all of its obligations with respect to the payment of the purchase price.

BEZ

Non-Firm Power Supply Agreement between NPC and BEZ

NPC entered into PSA with BEZ to sell to BEZ unutilized electric energy during off-peak period of the day on a non-firm or as-available basis.

Under the PSA, the electric energy shall be delivered and measured through BEZ's 69 kV lines at the Point of Delivery agreed by both parties in 3 Phase, 3 wires, 60 hertz: alternating current. BEZ shall pay for the cost in the delivery of electric power.

The price per kilowatt-hour of electricity delivered shall be the prevailing ERC approved NPC Average Rate Schedule for Visayas plus Value-Added Tax, if applicable. BEZ shall be charged based on the marginal costs of oil-based plant in case NPC is required to operate such plant. BEZ may avail of a prompt payment discount. Bills not paid by BEZ on or before the due date shall bear a floating rate of interest, computed based on a 360-day year.

In case of force majeure, the parties have the option to rescind the PSA upon advance notice in writing to the other party.

In case of litigation arising from the PSA, the venue shall be the proper courts of Quezon City.

Non-Firm Power Supply Agreement between FFHC and BEZ

First Farmers Holding Corporation ("FFHC") entered into PSA with BEZ to sell to BEZ unutilized excess electric energy power generated and produced by FFHC on a non-firm or as-available basis. The PSA shall be applicable during milling operations in the event that CENECO fails to accept the contracted power and in case of excess from FFHC and during off-milling operations.

Under the PSA, the electric energy shall be delivered and measured at the 69 kV side of substation transformer, in 3 Phase, 3 wires, 60 hertz: alternating current. BEZ shall pay for the cost in the delivery of electric power by TRANSCO and shall make necessary arrangements for the wheeling of energy through TRANSCO's transmission facilities.

The price per kilowatt-hour of electricity delivered shall be NPC's average grid rate for Visayas charged to BEZ during milling season. For off-milling season rate, the parties shall agree 1 month before the actual usage. The total amount payable shall be based on the Daily Generation Schedule and the billing period shall cover the 26th day of the previous month up to the 25th day of the current month.

BEZ shall be entitled to a 3.0% prompt payment discount if the bill is paid within the discount period and if there are no unpaid account. Bills not paid by BEZ on or before the due date shall earn an interest of 12.0% per annum, computed based on a 360-day year.

The term of the PSA is 1 year or from January 30, 2009 to January 30, 2010, subject to renewal as may be agreed upon by the parties. In case of force majeure, the parties have the option to rescind the agreement upon 30 days advance notice in writing.

All disputes shall be settled amicably. Any disputes in connection with the PSA not otherwise vested in any appropriate government agency shall be brought before the proper courts in Bacolod City, Negros Occidental.

In a letter dated January 9, 2009, BEZ confirmed this agreement to commence on January 26, 2009 and end until FFHC will advise the start of its commercial operation.

Non-Firm Power Supply Agreement between CASA and BEZ

On December 18, 2008, Central Azucarera De San Antonio, Inc. ("CASA") entered into a PSA with BEZ to sell to BEZ excess electric energy produced by CASA on a non-firm or as-available basis for a period of 14 hours a day from 8:00 AM to 10:00 PM, 7 days per week, except Mondays.

Under the PSA, the electric energy shall be delivered and measured by CASA to BEZ at the tapping point of CASA's 69 kV lines to the 69 kV sub-transmission line of TRANSCO, in 3 Phase, 3 wires, 60 hertz: alternating current. The price per kilowatt-hour of electricity delivered shall be the NPC TOU rate charged to ILECO 1 and Panay Electric Co. (PECO). Bills not paid by BEZ on or before the due date shall earn an interest of 6.0% per annum, computed based on a 360-day year.

The term of the PSA is for a period of 3 crop years, beginning on the signing of the PSA, subject to renewal as may be agreed upon by the parties. In case of force majeure, the parties have the option to rescind the PSA upon advance notice in writing. Otherwise, the term shall be extended to the extent it was suspended during the occurrence of force majeure. The parties may terminate the PSA for cause at any time upon 30 calendar days prior notice.

All disputes shall be settled amicably. Any disputes in connection with the PSA not otherwise vested in any appropriate government agency shall be brought before the proper courts in Makati City.

Electric Power Purchase Agreement ("EPPA") between BEZ and CPPC

On October 30, 2008, BEZ entered into an EPPA with CPPC in which CPPC agreed to sell to BEZ electricity for a term of 2 years from satisfaction of all conditions precedent of the EPPA, on a take or pay basis and on non-firm basis. CPPC shall provide BEZ a monthly availability forecast of the dispatch level that can be supplied and BEZ shall submit to CPPC its power requirement.

The EPPA shall take effect on the date the parties signed the term sheet thereof. Electric power will be delivered directly to the delivery points as specified in the EPPA.

BEZ shall pay capacity fees to CPPC. The power supplied by CPPC shall have a base rate of ₱10.4901/kWh, inclusive of Value-Added Tax at 0%. After the June 2008 billing period, CPPC shall provide BEZ the updated rate on a monthly basis, not later than 10:00 a.m. of the 25th day of every month.

If the bill is unpaid on the due date, except by reason of force majeure, BEZ shall pay interest at a rate per annum equal to the T-Bill Rate as of the due date plus 2.0% per annum and CPPC shall have the right to demand security or collateral. CPPC shall be liable for the payment of any taxes, fees, charges and levies and each party shall be liable for their respective income taxes.

The occurrence of force majeure excuses either party from failure or delay in the performance of its obligations. Force majeure includes changes in applicable requirements in force from time to time after the date of the EPPA, unreasonable delay in the grant of government permits and unavailability of fuel not due to the fault of CPPC and excludes lack of funds for the performance of any obligation, fluctuation in the Peso-Dollar exchange rate and ordinary or extraordinary inflation. In case of force majeure, the parties have the option to rescind the EPPA upon 30 days advance notice in writing.

The parties agree to maintain the confidentiality of all information, even after termination of the EPPA.

The following disclosures are excluded: a) disclosures required by law; b) disclosures made by BEZ to its lenders, professional advisors, employee, agents or authorized representatives; c) disclosures made by CPPC to its affiliates, related companies, lenders, professional advisors, employee, agents or authorized representatives; and d) disclosures made to persons participating or will participate in the project.

In case of the occurrence of default, both parties may terminate the EPPA upon 30 days prior written notice unless the default is cured within the 30-day period. This EPPA may also be terminated in the event that a law or court order makes it unlawful for CPPC to supply and deliver electricity or perform any of its obligations under the agreement, subject to the notice requirement. Upon termination, all unpaid fees, including other amounts payable by BEZ, shall be paid to CPPC.

The authorized representatives of both parties shall meet regularly at not less than yearly intervals during the rest of the term of the EPPA. All disputes shall be settled amicably. In case the dispute remains unresolved within 14 days from the initial meeting, appropriate actions may be brought before the proper courts in Cebu City.

Transmission Service Agreement between TRANSCO and BEZ

On March 26, 2008, TRANSCO and BEZ entered into a TSA in support of the non-firm PSA between BEZ and NPC dated September 24, 2008.

The TSA shall take effect on March 26, 2008.

Under the TSA, BEZ shall provide a security deposit which corresponds to the highest of BEZ's power bill for the previous 12 months or power bill based on the forecast highest demand for the next 12 months, whichever is applicable. In case of cash deposit, the deposit including interest shall be refunded within 30 days after the expiration of this agreement. BEZ is required to post additional security deposit proportionate to any new energy supply contracts.

Memorandum of Agreement between CEBECO III and BEZ

On November 23, 2007, CEBECO III Electric Cooperative, Inc. ("CEBECO III") entered into a MOA with BEZ which sets out the payment conditions for the supply by CEBECO III of the power requirements of BEZ in the Ecozone.

The MOA took effect upon signing and will remain in effect until the expiration, revocation or non-renewal of the franchise of CEBECO III or its assignees. The MOA is deemed terminated in case (i) CEBECO III is dissolved or insolvent; (ii) becomes subject to the filing of judicial process of voluntary insolvency; (iii) enters into liquidation or ceases to do business, or (iv) there is a material change in the ownership.

Under the MOA, BEZ shall pay CEBECO III access fees at the rate of ₱0.15 per kWh consumed. In the event that BEZ sources power supply services from NPC or other power suppliers, BEZ shall furnish CEBECO III the monthly billing statement which shall be the basis for the computation of the fees payable to CEBECO III. The fees shall be inclusive of all taxes, levies and other similar charges, excluding those which CEBECO III is directly liable for. CEBECO III acknowledges that the fees for the period January 26, 2007 to August 25, 2007 has been paid in full.

BEZ shall also pay a lifeline rate subsidy at the rate of ₱0.05 per kWh, effective billing period May 26, 2007 to June 25, 2007. The subsidy shall be exclusive of any and all costs and other charges provided under the embedded generation contract and shall be inclusive of all taxes, levies and other similar charges.

BEZ shall notify CEBECO III in the event that it shall source power supply services from NPC and/or other power suppliers.

Any action arising from the MOA shall be filed in the proper courts of Cebu City.

The MOA must be filed by BEZ with the ERC, the cost of which shall be borne equally by the parties.

MEZ

Contract for the Supply of Electric Energy between National Power Corporation ("NPC") and Aboitizland, INC. ("Aboitizland")

NPC is required under EPIRA, to file with the ERC for the approval of a Transition-Supply Contract duly negotiated with the distribution utilities.

As the existing Contract for the Supply of Electricity between NPC and Aboitizland does not comply with the requirements of the EPIRA, such as, but not limited to, contract duration, pricing and functional unbundling (i.e., separation of generation and transmission functions) of NPC, the parties entered into a new Contract for the Supply of Electric Energy. This new contract is deemed a Transition Supply Contract for the period from the effectivity date of September 26, 2005 until June 25, 2007 (for private/public utilities) / June 25, 2008 (for electric cooperatives) in compliance with the provisions of the EPIRA. Thereafter, it shall be considered a Regular Bilateral Contract, which shall be in full force and effect until September 25, 2015.

Upon commercial operation of the WESM, all energy produced by generation companies (including those operated by NPC) shall be bid through the power pool, and the customers (including Aboitizland) shall draw all their requirements from the pool (including contracted levels under this contract) in accordance with the WESM Rules. Unless otherwise provided, the applicable provisions of this contract shall be deemed modified by the applicable WESM Rules.

Tripartite Memorandum of Agreement among National Power Corporation ("NPC"), Aboitizland, INC. ("Aboitizland") and Mactan Enerzone Corporation ("MEZ")

Aboitizland has an existing 10 year power supply contract with NPC (i.e., from September 26, 2005 to September 25, 2015) for the supply of electricity. It spun off its power distribution business in Mactan Economic Processing Zone II – Special Economic Zone ("MEPZ II – SEZ") to MEZ by assigning all of its rights, title and interests of every type or nature over its power distribution assets and other assets used solely for the power distribution business including all its power supply contract/s and power locator contracts in exchange for shares in MEZ.

On May 31, 2007, Aboitizland formally informed NPC that the ownership and operational control of its power distribution business has been assigned and transferred to MEZ effective June 1, 2007.

The parties then entered into a Tripartite Memorandum of Agreement ("Tripartite MOA") to clarify certain issues that have arisen in relation to the acquisition by MEZ of the power distribution business of Aboitizland to the extent that the same are in connection with or in relation to the Contract for the Supply of Electric Energy ("CSEE").

Under the Tripartite MOA, Aboitizland assigned to MEZ all its rights and obligations under the CSEE. From the execution of the Tripartite MOA, MEZ shall be billed for the electric energy delivered by NPC in accordance with energy charges approved by the ERC.

The Tripartite MOA shall, therefore, be deemed as an amendment to the existing CSEE and shall be made an integral part of the said CSEE.

Transco Letter of Assignment of Transmission Service Agreement from Aboitizland, Inc ("Aboitizland") to Mactan Enerzone Corporation ("MEZ")

In a letter to MEZ dated December 22, 2008, Transco confirmed that the Transmission Service Agreement ("TSA") with Aboitizland has been assigned and transferred to MEZ. Therefore, in

accordance with the assignment provision of the Open Access Transmission Service (OATS) Rules, the TSA was assigned and transferred to MEZ effective June 1, 2007.

Tripartite Agreement for the Sale of Electricity among National Power Corporation ("NPC"), Philippine Economic Zone Authority ("PEZA") and Aboitiz Land, Inc. ("Aboitizland")

Aboitizland filed its application with the Energy Industry Administration of the DOE for direct power connection with NPC. The Secretary of Energy in a decision dated May 10, 1996 resolved that PEZA is entirely left with the discretion and responsibility as to how light and power systems can be installed and provided at economic zones. Thereafter, PEZA, through its Board Resolution No. 96-192, confirmed the authority granted to Aboitizland to install and operate power distribution facilities exclusively within the proclaimed ecozone area of the Mactan Export Processing Zone ("MEPZ") II.

NPC, PEZA and Aboitizland then entered into a Tripartite Agreement for the Sale of Electricity on July 18, 1996. The said agreement shall remain in full force and effect for a period of 10 years from the date of its signing.

Under the Tripartite Agreement, NPC shall sell and deliver electric power and energy to Aboitizland at the points of delivery installed by Acoland in 3-phase, 3-wire, 60 hertz alternating current metered with a 2.5 metering scheme. NPC shall also provide and install the necessary metering equipment and devices while Aboitizland shall take charge of the financing and construction of the 69 kV transmission line from NPC's 69 kV transmission line in Mactan to Acoland substation, which shall be in accordance with the standards, design and specifications of NPC. The Rules on the Sale of Electricity promulgated by NPC, as may be amended from time to time, are made an integral part of the Tripartite Agreement.

Aboitizland shall also pay PEZA a fee, the amount of which shall be determined by mutual agreement between PEZA and Aboitizland. Further, Aboitizland agreed to impose electricity rates no higher than those charged to MEPZ I locators.

SHAREHOLDERS' AGREEMENTS

STEAG Shareholders' Agreement

In 2007, STEAG GmbH, State Investment Trust Inc., APC, (the "Shareholders") and STEAG Power entered into a Shareholders' Agreement in order to establish the manner in which STEAG Power is to be run and to set out the terms governing their relationship as shareholders of STEAG Power. The Shareholders have agreed, through STEAG Power, to jointly operate and maintain the 232 MW (gross) Mindanao coal-fired power plant at the PHIVIDEC Industrial Estate in Misamis Oriental, Mindanao, Philippines together with related facilities, as more particularly described in the PPA (the "Project").

The Shareholders' Agreement set forth the parties' agreement with respect to funding, composition of the board of directors, reserved and majority matters and voting, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer of shares), pre-emptive rights, budget, dividend policy, default and confidentiality.

The Amended Shareholders' Agreement ("ASHA") must establish the manner in which STEAG Power is to be run and shall set out the terms governing the relationship of its shareholders. Where there is any ambiguity or discrepancy between the provisions of the ASHA and the Articles of Incorporation and By-Laws of STEAG Power, the provisions of the ASHA prevails as between the shareholders and accordingly, the shareholders must exercise all voting and other rights and powers available to them so as to give effect to the provisions of the ASHA and must, if necessary, provide any required amendment to the Articles of Incorporation and By-Laws.

LHC Second Amended and Restated Shareholders' Agreement

On March 11, 2002, Hedcor (then known as Benguet Hydropower Corporation) and PHBI entered into Second Amended and Restated Shareholders' Agreement to govern the parties' relationship, rights, and obligations as stockholders of LHC and the manner in which the affairs of LHC are to be conducted.

The purpose of the agreement is to ensure that LHC completes and successfully undertakes the development, construction, ownership, and operation of the 70 MW hydroelectric power plant in Benguet and Ilocos Sur, Philippines, and any enhancement or supplement thereto, including the development of the option to obtain water from sources other than the Bakun river for the power generation requirements of the development, construction, ownership, and operation of the 70 MW hydroelectric power plant in Benguet and Ilocos Sur, Philippines.

The shareholders' agreement set forth the parties' agreement with respect to LHC's capitalization, financing, shareholding structure (Hedcor — 50.0% and PHBI — 50.0%), dividend policy, management and control, board composition and structure, proceedings of directors and shareholders, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), change in control of Hedcor or PHBI, LHC board and shareholder voting requirements for certain acts, dispute resolution mechanisms, default and termination, among others.

In 2007 Hedcor transferred its ownership interest in LHC to its parent company PHC through property dividend declaration.

Kookaburra Equity Ventures, Inc. Shareholders' Agreement

On August 26, 2004, PHBI and Hedcor entered into a shareholders' agreement to provide for the parties' relationship, rights, and obligations as stockholders of Kookaburra Equity Ventures, Inc. and the manner in which the affairs of Kookaburra Equity Ventures, Inc. are to be conducted. Kookaburra Equity Ventures, Inc. subscribed to 25.0% of Cordillera Hydro Corporation, the project company which will implement and operate any enhancement or supplement thereto, including the development of the option to obtain water from sources other than the Bakun river for the power generation requirements of the development, construction, ownership, and operation of the 70 MW hydroelectric power plant in Benguet and Ilocos Sur, Philippines.

The shareholders' agreement set forth the parties' agreement with respect to Kookaburra Equity Ventures, Inc.'s capitalization, financing, shareholding structure (Hedcor — 60.0% and PHBI — 40.0%), dividend policy, management and control, board composition and structure, proceedings of directors and shareholders, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), change in control of Hedcor or PHBI, board and shareholder voting requirements for certain acts, dispute resolution mechanisms, default and termination, among others.

CHC Shareholders' Agreement

On August 26, 2004, PHBI, Hedcor and Kookaburra Equity Ventures, Inc. entered into a shareholders' agreement to govern the parties' relationship, rights, and obligations as stockholders of Cordillera Hydro Corporation and the manner in which the affairs of Cordillera Hydro Corporation are to be conducted. Cordillera Hydro Corporation is the project company for supplemental water project for the Bakun plant which involved diverting water from the Kayapa Creek into the Bakun plant to provide additional water flow for the Bakun plant.

The shareholders' agreement set forth the parties' agreement with respect to Cordillera Hydro Corporation's capitalization, financing, shareholding structure (Hedcor — 35.0%, PHBI — 40.0%, and Kookaburra Equity Ventures, Inc. —25.0%), dividend policy, management and control, board composition and structure, proceedings of directors and shareholders, restrictions on share transfers (including the

grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), change in control of Hedcor or PHBI, Cordillera Hydro Corporation board and shareholder voting requirements for certain acts, dispute resolution mechanisms, default and termination, among others.

Amended MORE Shareholders' Agreement

On May 11, 2006, PHC, SNAP, and MORE, entered into a shareholders' agreement to govern the parties' relationship, rights, and obligations as stockholders of MORE and the manner in which the affairs of MORE are to be conducted.

The shareholders' agreement set forth the parties' agreement with respect to MORE's capitalization, financing, shareholding structure (PHC to own such number of common shares in MORE to constitute 5/6 of the total issued and outstanding voting shares and SNAP will own the remaining 1/6), dividend policy, management and control, board composition and structure, proceedings of directors and shareholders, blocking rights, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), board and shareholder voting requirements for certain acts, dispute resolution mechanisms, default and termination, among others.

Hijos de F. Escaño and VECO Shareholders' Agreements

On March 16, 2004, Vivant, JEG Development Corporation, AEV, ACO, Hijos de F. Escaño, Inc. and VECO, entered into a Memorandum of Agreement ("MOA") relating to the ownership and management of Hijos de Escano and VECO.

On April 2, 2004, pursuant to the MOA, Vivant, JEG Development Corporation, AEVI, ACO, and Hijos de F. Escaño, Inc. entered into a shareholders' cooperation agreement to govern the parties' relationship, rights, and obligations as stockholders of Hijos de F. Escaño, Inc. and the manner in which the affairs of Hijos de F. Escaño, Inc. are to be conducted. Vivant Corporation and JEG Development Corporation are referred to as the Garcia Group and AEV and ACO as the Aboitiz Group. On the same date, the same parties also entered into a Shareholders Cooperation Agreement to govern the parties' relationship, rights, and obligations as stockholders of VECO. These agreements recognize that the Aboitiz Group's beneficial ownership in VECO is approximately 54.7% and the Garcia family's beneficial ownership interest in VECO is approximately 35.9%.

The Shareholders' Cooperation Agreement specifically laid down the parties' agreement with respect to Hijos de F. Escaño, Inc.'s and VECO's capitalization, financing, shareholding structure, dividend policy, management and control, board composition and structure, proceedings of directors and shareholders, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), tag-along rights, board and shareholder voting requirements for certain acts, dispute resolution mechanisms, default, and termination, among others.

Abovant Shareholders' Agreement

Shareholders' Agreement between Vivant Integrated Generation Corporation ("VIGC") and TPI

VIGC and TPI (collectively, the "Parties") have decided to jointly participate, through Abovant, in a joint venture company with Global Business Power Corporation and Formosa Heavy Industries(collectively, the "JV Partners"), which would undertake the financing, design, procurement, construction, testing, commissioning, operation and maintenance of a new 3 x 82 MW coal-fired power plant in the existing Toledo Power Station (the "Project"). The Project, which is estimated to cost US$419 million, shall be financed through a combination of debt financing through a term loan with limited recourse to the JV Partners to be sourced from a syndicate of commercial banks covering 70.0% of the cost and equity placements by the JV Partners covering 30.0% of the cost.

In order to set forth certain agreements concerning the ownership of the shares of stock in Abovant and to avoid conflicts in the management of Abovant, VIGC and TPI entered into a Shareholders' Agreement on September 16, 2008.

The current authorized capital stock of Abovant is ₱1 million consisting of 1 million common shares with a par value of ₱1.00 per share. Under the Shareholders' Agreement, the shareholders shall cause the amendment of Abovant's authorized capital stock from ₱1 million to ₱300 million consisting of 30 million common shares with a par value of ₱1.00 per share and 270 million preferred shares with a par value of ₱1.00 per share. The preferred shares shall be voting shares and redeemable at its subscription price and shall have such other rights and features as the board of directors may decide.

TPI and its nominees shall own 60.0% of the total issued and outstanding capital stock of Abovant while VIGC and its nominees shall own 40.0%.

From time to time, the board of directors may require each of the shareholders to fund the equity portion of the Project in proportion to their share ratio in the form of shareholder advances. The proceeds of the capital contributions shall be used strictly for the Project. In case a party is unable to participate in the additional subscriptions, the other party shall have the option to take up the subscription of the non-paying party or pay for such shortfall. As a consequence, the equity sharing of the Parties within Abovant shall be adjusted to reflect the reduced participation of the non-paying party.

Any transfer of or encumbrance over the shares in Abovant is prohibited, unless specifically permitted by the Shareholders' Agreement, as follows: (1) each party shall be entitled to pre-emptive right as to all issues in proportion to its shareholdings ratio; (2) a right of first refusal is granted to the shareholder; (3) subject to the right of first refusal and tag-along rights, each of the shareholders shall have the right to transfer their shares in Abovant to third parties without the consent of the other shareholder, provided, however, that such transfer shall comply with the transfer conditions imposed in the Shareholders' Agreement; (4) exempt transfers, i.e., transfer to an affiliate or to a director nominee; and (5) a party shall be entitled to tag-along on any sale by the other party selling the offered shares to a third party.

The Shareholders' Agreement further provides that subject to the requirements of law, the Parties shall declare dividends or, whenever applicable, distribute Abovant's free cash flows to its shareholders at least on an annual basis.

CPPC Shareholders Agreement

Shareholders' Agreement between Vivant Energy Corporation (VEC) and APC

VEC and APC entered into a Shareholders' Agreement to provide for the parties' relationship, rights, and obligations as stockholders of CPPC. The Shareholders' Agreement set forth the parties' agreement with respect restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer of the CPPC shares and the tag-along rights on any sale by the other party selling CPPC Shares to a third party), dividend policy, nomination of officers and confidentiality agreement. The agreement shall terminate upon the expiration or dissolution of CPPC.

SNAP-Magat Amended Shareholders Agreement

First Amendment and Waiver to the Shareholders' Agreement

On April 18, 2007, SN Power Holding Singapore Pte Ltd., MORE and SNAP entered into an agreement amending the Shareholders' Agreement dated May 11, 2006 (First Amendment). The First Amendment amended SNAP's capital structure to provide for Series B Preferred Shares.

The First Amendment replaced the definitions of a) Shares or Capital Stock; b) Authorized Capital – Financial Closing, c) Series A Preferred Shares, d) Use of Capital Contribution; e) Transfer to Director

Nominees; and f) Equity Waterfall. The agreement further amended the Shareholder's Agreement by adding that the issuance and redemption of Series B Preferred Shares requires Super Majority Approval.

SNAP–Benguet Shareholders' Agreement

SN Aboitiz Power – Benguet was established by MORE and SN Power Singapore to bid for, acquire, rehabilitate, finance, and operate the hydro-electric power complex consisting of the 75 MW Ambuklao power plant and the 100 MW Binga power plant, located at Benguet.

On June 13, 2008, MORE and SN Power Singapore entered into a shareholders' agreement to govern the parties' relationship, rights, and obligations as stockholders of SNAP – Benguet and the manner in which the affairs of SNAP Benguet are to be conducted.

The Shareholders' Agreement specifically laid down the parties' agreement with respect to SNAP – Benguet's capitalization, financing, shareholding structure (MORE to own such number of common shares in SNAP – Benguet to constitute 3/5 of the total issued and outstanding voting shares and SN Power Singapore will own the remaining 2/5), dividend policy, management and control, board composition and structure, proceedings of directors and shareholders, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to affiliates, subject to certain conditions), pre-emptive rights, board and shareholder voting requirements for certain acts, dispute resolution mechanisms, default, and termination, among others.

Shareholders' Agreement between El Paso Philippines, APC and EAUC

El Paso Philippines and APC entered into a Shareholders' Agreement to provide for the parties' relationship, rights, and obligations as stockholders of EAUC. El Paso Philippines and AP shall each own 50.0% of the total issued and outstanding capital stock of EAUC. The Shareholders' Agreement set forth the parties' agreement with respect to share issuances, the existence of pre-emptive rights, funding, creation and redemption of preferred shares, management, voting requirements on fundamental matters, shareholder meetings, deadlocks, restrictions on share transfers (including the grant of rights of first refusal in the event of a transfer of shares), dividend policy, nomination of officers and confidentiality agreement.

DESCRIPTION OF PROPERTIES

The Company does not hold any real property of material value except for three parcels of land situated in Tagum, Davao del Norte in Mindanao with a total land area of 10,000 square meters. Other than these parcels of land and its shares in its subsidiaries and affiliates and certain properties held through its subsidiaries and affiliates, the Company does not hold significant properties.

The Company's head office is located at the Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City, Philippines. The premises are leased from an affiliate, Cebu Praedia Development Corporation.

The following table sets out the status of land that is material for purposes of the Company's power generation and distribution facilities:

Status of Owned/Leased Land as of December 31, 2008

Location	Area (hectares)	Owned / Leased	Parcels of Land	Title Status as of December 31, 2008
Tagum, Davao del Norte	1	Owned by AP	3	Clean
Cotabato City	1.8504	Owned by CLPC	3	Clean
Davao City	9.7365	Owned by DLPC	45	Clean
Davao City	3.0335	Owned by Hedcor	9	Clean
La Trinidad, Benguet	1.2028	Owned by Jon. R. Aboitiz	2	Clean
Benguet and Ilocos Sur	1.265	Owned by Jovy Batiquin and Rene B. Ronquillo (for weir and access roads of Bakun plant)	6	Mortgaged to lenders under an Omnibus Agreement dated June 5, 1997
Cebu City, Mandaue City and Talisay City	7.1855	Owned by VECO	24	Mortgaged to DBP as Trustee under a Relending Agreement dated February 17, 1992

Location	Area (hectares)	Owned / Leased	Parcels of Land	Title Status as of December 31, 2008
Sta. Cruz, Davao del Sur	209,920 (for permanent facilities) 227,594.75 (for temporary facilities)	Leased by Hedcor Sibulan from various individuals for use in its Sibulan hydropower project. Lots used for temporary facilities are leased for a period of two years, while those used for permanent facilties are leased for 25 years.	148 (permanent facilities) 143 (temporary facilities)	The rights of Hedcor Sibulan under the Special Use Agreement in Protected Areas with the Mt. Apo Natural Park Protected Area Management Board dated March 27, 2007 and the leasehold rights of Hedcor Sibulan under the contracts of lease covering the leased properties are mortgaged to a syndicate of lenders under the Omnibus Loan and Security Agreement dated May 21, 2008.

As of the date of this Prospectus, the Company has no plans to acquire any property in the next 12 months that will have a significant material prejudicial effect on the Company's prospects or operations.

GENERATION COMPANIES

Hedcor

Hedcor's mini-hydroelectric plants are located on parcels of land with a total land area of 3.0 hectares. Structures, machinery and improvements in these plants consist of turbines, generators, weirs, forebays, penstocks and other support structures. Hedcor's property, plant and equipment have a net book value of ₱723.62 million as of December 31, 2008.

Liens and encumbrances

As security for a loan agreement dated October 10, 2005 with Banco de Oro-EPCI, Inc. for ₱200 million, Hedcor executed a chattel mortgage dated October 10, 2005 over machinery and equipment owned by it. The lien established by the chattel mortgage extends to all property of every nature and description taken in exchange or replacement therefore, all assets acquired with the proceeds of the credit secured, and all machineries, fixtures, tools, equipment, and other property that Hedcor may acquire, construct, install, attach or use in, upon or in connection thereof. The instrument was registered on October 13, 2005 with the Register of Deeds of Benguet province.

On January 26, 2000, HEDC executed a chattel mortgage in favor of Banco de Oro-EPCI, Inc. as security for a loan in the amount of ₱447.0 million. The chattel mortgage covers machineries and equipment of HEDC located in Davao City and Benguet Province. The chattel mortgage was registered on March 23, 2000 with the Register of Deeds of the City of Davao and on January 27, 2000 with the Register of Deeds of Benguet province.

HEDC assigned all its assets and liabilities to Hedcor in a de facto merger undertaken in 2005.

LHC

LHC owns the 70 MW Bakun hydroelectricpower plant which is located within the 13,213 hectareswatershed area of the Bakun River in Ilocos Sur. Structures, machinery and improvements in this plant consist of turbines, generators, weirs, desanders, penstock, vertical drop tube and other support structures. The plant is a Run-of-river hydroelectric plant, with water from the upper reaches of the Bakun River diverted through an 11 meter high weir into a 9.6 kilometer long tunnel cut into the Cordillera Mountains. From the tunnel the water goes into the power station, which uses four 18 MW twin jet Pelton turbines, with two 44 MVA synchronous generators and two 44 MVA 13.8/230 KV transformers to convert the energy of the flowing water into electricity. The water then exits the power station back into the same stream it was diverted from approximately 535 meters below the level of the weir.

Effective the financial reporting period beginning January 1, 2008, LHC adopted IFRIC 12 as the existing arrangement has met the scope of the interpretation. Properties and equipment which were constructed by LHC and within the scope of IFRIC 12 have a net book value of ₱ 0 as of December 31, 2008. LHC has recognized an intangible asset amounting to ₱4.73 billion to the extent that it receives a right to charge its customers for generation and sale of electricity.

Liens and encumbrances

On June 5, 1997, LHC executed a Mortgage Trust Indenture ("MTI") with the PNB as Trustee. The MTI secures the obligations of LHC under an Omnibus Agreement dated June 5, 1997. The same MTI was used to secure the loan obligations of LHC under an Amended and Restated Omnibus Agreement and a Facility B1 Omnibus Agreement, both dated November 21, 2006.

The MTI covers the following real properties and rights of LHC:

- The Bakun hydroelectricpower plant located near the Bakun River in Ilocos Sur, including all buildings, fixtures, and structures, created, acquired, or permanently attached, on or to the Bakun Plant or the land on which the Bakun Plant is constructed, now or in the future, which are owned by LHC, as well as all replacements and substitutions thereof;

- All machinery, equipment, or other movable assets located at the Bakun hydroelectricpower plant site, whether or not covered by a chattel mortgage that are, at any time or from time to time in the future, attached to the real properties of LHC so as to become real properties in accordance with law;

- The rights and interest of LHC on or relating to the use of the site; and

- All rights, benefits, and indemnities received by or due to LHC in connection with the aforementioned rights and assets, including any insurance proceeds and any amount of indemnity received by LHC by reason of condemnation, seizure, expropriation or requisition.

Under the MTI, a chattel mortgage was also established over the following properties of LHC: (i) machinery, equipment, vehicles, tools, furniture, and other movable assets, all supplies, inventories and stocks, as well as replacements or substitutions thereof; (ii) any future chattel, as well as replacements or substitutions thereof; (iii) all assets covered by the real estate mortgage, but are at any time in the future, for any reason, dismantled or removed, and has become mobilized; (iv) all property, assets, and revenues, tangible or intangible, of whatever kind or nature, whether or not located at the Bakun plant or at the plant site; and (v) all rights, benefits, and indemnities received by or due to LHC in connection with the assets listed as (i) to (iv), including any insurance proceeds and any amount of indemnity received by LHC by reason of condemnation, seizure, expropriation or requisition.

From time to time, LHC executes mortgage supplements to update the MTI to include newly acquired property. Since the execution of the MTI in 1997, LHC has executed ten mortgage supplements, the most recent one on November 21, 2006.

CPPC

AP owns a 60% interest in the equity of CPPC. The company is situated on a 1.8 hectare lot in the old VECO compound in Bgy. Ermita, Cebu City. The plant began full commercial operations in November 1998 and is powered by 10 Caterpillar-Mak diesel engines. It is one of the biggest power plants in Cebu that supplies 62 MW of power to VECO, augmenting VECO's capacity to meet the increasing demand of Cebu's residential and business population.

CPPC had a total fixed assets of ₱726.3 million as of December 31, 2008.

DISTRIBUTION COMPANIES

VECO

As of August 9, 2001, VECO's electrical power distribution equipment, machinery, communication equipment, transportation equipment, and furniture and office equipment were appraised to have a sound value of ₱2.12 billion. VECO's land, buildings and other land improvements were appraised to have a fair market value of ₱530.8 million.

VECO's land and buildings are located in Cebu City, Mandaue City, Talisay City, and the municipalities of Consolacion, Naga and Liloan in the province of Cebu, while its substations, poles and fixtures, overhead transmission and distribution lines, and distribution transformers are found in various locations within its franchise area.

Liens and encumbrances

On February 17, 1992, VECO executed a MTI over the bulk of its properties in its franchise area to secure its obligations under the Relending Agreement with the NEA dated January 26, 1995 for a ¥1.4 billion loan.

DLPC

AP has a 99.9% equity interest in DLPC. DLPC's franchise area includes Davao City, Panabo City and the municipalities of Carmen, Dujali and Santo Tomas in the province of Davao del Norte. This franchise area covers 3,561 square kilometers with a population of approximately 1,200,000. DLPC has a 150 MVA substation drawing power at 138 KV. It also maintains a stand-by 53 MW diesel plant capable of supplying 24% of its requirements.

As of September 17, 2004, DLPC's land, buildings, other land improvements, machinery, electrical equipment, transportation equipment and computer equipment were appraised to have a sound value of ₱746.2 million.

DLPC's land and buildings are located in Davao City and Panabo City while its substations, poles and fixtures, overhead transmission and distribution lines, and distribution transformers are found in various locations within its franchise area.

CLPC

AP has a 99.9% equity interest in CLPC. CLPC supplies electricity to Cotabato City and to portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao province in Mindanao. Its franchise area covers 176 square kilometers and has a population of approximately 176,450.

CLPC has three power substations of 10 MVA, 12 MVA and 15 MVA and is served by two 138 kV transmission lines which provide redundancy in case one transmission line fails. It also maintains a stand-by 7 MW diesel plant.

As of January 11, 2002, CLPC's land, buildings, other land improvements, machinery and equipment, electrical equipment, transportation equipment, gym equipment, computer equipment, and furniture and office equipment were appraised to have a sound value of ₱427.8 million. CLPC's land and buildings are located in Cotabato City while its substations, poles and fixtures, overhead transmission and distribution lines, and distribution transformers are found in various locations within its franchise area.

SEZ

AP has a 100% equity interest in SEZ. SEZ won a competitive bid in May 2003 to provide power distribution services to the SBFZ for a period of 25 years and now manages the power distribution system

within SBFZ.

On June 29, 2005, SBMA leased to SEZ a property identified as Block B located at the central business district of the SBFZ with an area of 17,331 square meters. As consideration, SEZ paid SBMA the amount of ₱14.6 million. SEZ also committed to infuse at least ₱21.4 million on the leased property. The term of the lease is for 50 years. The lease may be renewed upon mutual consent by the parties. SEZ shall use the leased property to develop and manage thereon an industrial park and market the same for commercial and light industrial facilities.

On March 20, 2006, SEZ assigned its leasehold rights to portions of Block B to two separate entities. SEZ assigned its leasehold rights over an aggregate area of 7,000 square meters and received a total of U.S.$304,000 as consideration for such assignment. The term of the assignment coincides with the term of SEZ's lease of Block B from SBMA.

Liens and encumbrances

On September 26, 2005, SEZ executed a deed of assignment of rights and receivables in favor of the DBP as security for loan in the amount of ₱185.0 million. The assignment covered rights and benefits of SEZ related to (a) revenue receivables, and (b) new equipment and assets to be purchased and used in the SBMA power distribution system, duly acknowledged by SBMA. On June 24, 2008, the amount of loan was increased to ₱210 million; and on September 22, 2008, an additional loan of ₱131 million was availed. The total loan as of December 31, 2008 was ₱341 million.

MEZ

AP owns a 100% equity interest in MEZ. MEZ distributes power at the Mactan Export Processing Zone II (MEPZ II) in Mactan Island, Cebu. MEPZ II has 75 locators, many of which are semiconductor firms and electronic manufacturers. MEZ began its operation on February 19, 2007.

MEZ had total fixed assets of ₱ 3.40 million as of December 31, 2008.

BEZ

AP owns a 100% equity interest in BEZ. BEZ is the electricity provider in the Western Cebu Industrial Park (WCIP) in Balamban, Cebu. WCIP is the home to the shipbuilding facilities of Tsuneishi Heavy Industries (Cebu) Inc. and FBMA Marine, Inc. as well as the modular fabrication facility of Metaphil International. Demand for power in the WCIP, which currently has 10 locators, is expected to grow substantially due to the expansion of Tsuneishi's shipbuilding facilities and the completion of the new plants of Air Liquide and Southern Industrial Gases, Inc. ("SIG").

BEZ had total fixed assets of ₱55.02 million as of December 31, 2008.

SFELAPCO

AP owns a 43.8% equity interest in SFELAPCO. SFELAPCO supplies electricity to approximately 35 barangays in San Fernando City, 25 barangays in the municipality of Floridablanca, two barangays in the municipality of Bacolor and two barangays in the municipality of Guagua, all located in the province of Pampanga in Central Luzon.

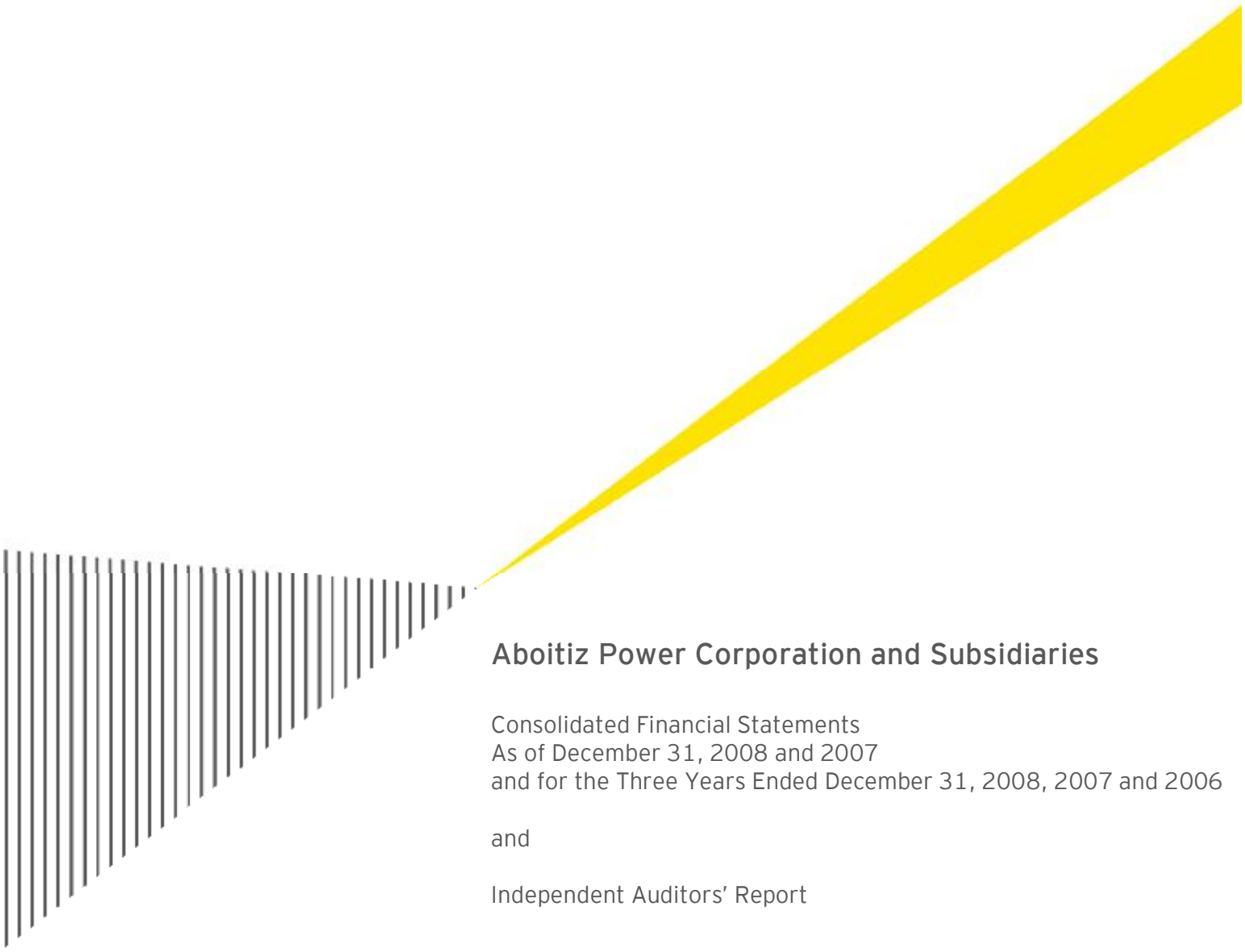
SFELAPCO had total fixed assets revalued at ₱1.07 billion as well as other property and equipment revalued at ₱31.70 million as of December 31, 2008.

CHANGES IN, AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

SGV & Co. has been AP's Independent Public Accountant for the last 10 years. The Company has not had any disagreements on accounting and financial disclosures or auditing scope or procedure with its current external auditors for the same periods.

FINANCIAL INFORMATION

The following pages set forth AP's audited consolidated financial statements for the years ended December 31, 2008, 2007 and 2006.



Aboitiz Power Corporation and Subsidiaries

Consolidated Financial Statements
As of December 31, 2008 and 2007
and for the Three Years Ended December 31, 2008, 2007 and 2006

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGV&Co
Ernst & Young

COVER SHEET

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SEC Registration Number

A	B	O	I	T	I	Z		P	O	W	E	R		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B
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(Company's Full Name)

A	b	o	i	t	i	z		C	o	r	p	o	r	a	t	e		C	e	n	t	e	r	,		G	o	v	.		M	a
n	u	e	l		A	.		C	u	e	n	c	o		A	v	e	n	u	e	,		C	e	b	u		C	i	t	y		

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

Mr. Iker M. Aboitiz

(Contact Person)

(032) 231-2580

(Company Telephone Number)

1	2

Month

3	1

Day

(Fiscal Year)

A	A	C	F	S

(Form Type)

Month

Day

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Article VII

Amended Articles Number/Section

329

Total No. of Stockholders

Total Amount of Borrowings

₱7.4 billion

Domestic

$81m

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Power Corporation

We have audited the accompanying financial statements of Aboitiz Power Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of the following subsidiaries: Philippine Hydropower Corporation and Subsidiaries, Aboitiz Energy Solutions, Inc., Mactan Enerzone Corporation and Balamban Enerzone Corporation, which statements reflect total assets of 13.12% and 13.49% of the consolidated assets as of December 31, 2008 and 2007, respectively; and total revenues of 13.21% , 11.94% and 9.46% of the consolidated revenues in 2008, 2007 and 2006, respectively. Also, we did not audit the financial statements of the following associates: Hijos de F. Escaño, Inc., Pampanga Energy Ventures, Inc.; STEAG State Power, Inc., and East Asia Utilities Corporation; and the 2006 financial statements of Visayan Electric Company, Inc. the investments in which represent 15.34% and 17.20% of the total consolidated assets as of December 31, 2008 and 2007, respectively, and the Group's share in net earnings represents 29.19%, 6.42% and 5.52% of the consolidated net income for 2008, 2007 and 2006, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

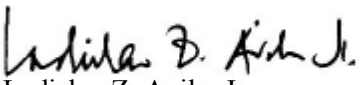
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Aboitiz Power Corporation and Subsidiaries as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-1
Tax Identification No. 109-247-891
PTR No. 1566404, January 5, 2009, Makati City

March 31, 2009

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts In Thousands, Except Par Value Per Share Amount)

	December 31	
	2008	2007 (As restated, see Note 3)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱14,915,384**	₱13,287,811
Trade and other receivables - net (Note 5)	**1,991,074**	1,661,120
Materials and supplies	**332,042**	374,628
Other current assets (Note 6)	**501,150**	314,892
Total Current Assets	**17,739,650**	15,638,451
Noncurrent Assets		
Property, plant and equipment - net (Note 10)	**6,257,643**	4,101,316
Intangible asset - Service concession rights - net (Notes 3 and 11)	**854,193**	662,189
Investment property	**10,000**	10,000
Investments in and advances to associates (Note 8)	**21,250,901**	14,600,199
Available-for-sale (AFS) investments - net of allowance for impairment of ₱5,254 in 2008	**3,744**	8,999
Goodwill (Note 9)	**996,005**	996,005
Pension assets (Note 22)	**9,720**	28,752
Deferred income tax assets (Note 23)	**66,576**	60,677
Other noncurrent assets	**83,704**	69,642
Total Noncurrent Assets	**29,532,486**	20,537,779
TOTAL ASSETS	**₱47,272,136**	₱36,176,230
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 13)	**₱4,798,120**	₱3,343,680
Trade and other payables (Note 12)	**3,145,311**	2,694,114
Current portion of long-term obligation on power distribution system (Notes 3 and 30)	**40,000**	40,000
Current portion of long-term debts - net of deferred financing costs (Note 14)	**16,145**	20,371
Current portion of payable to preferred shareholder of a subsidiary (Note 16)	**9,194**	7,506
Income tax payable	**81,422**	111,891
Total Current Liabilities	**8,090,192**	6,217,562
Noncurrent Liabilities		
Long-term debts-net of current portion and deferred financing costs (Note 14)	**6,505,852**	817,515
Long-term obligation on power distribution system - net of current portion (Notes 3 and 30)	**251,816**	255,688
Customers' deposits (Note 15)	**1,571,092**	1,373,932
Payable to preferred shareholder of a subsidiary - net of current portion (Note 16)	**88,030**	97,225
Pension liability (Note 22)	**14,467**	15,367
Deferred income tax liabilities (Note 23)	**59,024**	38,818
Total Noncurrent Liabilities	**8,490,281**	2,598,545
Equity Attributable to Equity Holders of the Parent		
Capital stock - ₱1 par value (Notes 1and 17)	**7,358,604**	7,358,604
Additional paid-in capital (Notes 1 and 17)	**12,588,894**	12,588,894
Share in cumulative translation adjustments of associates (Note 8)	**(18,422)**	(575,976)
Acquisition of minority interests (Note 1)	**(259,147)**	(107,163)
Retained earnings (Note 17)	**10,485,401**	7,476,337
	30,155,330	26,740,696
Minority interests (Note 7)	**536,333**	619,427
Total Equity	**30,691,663**	27,360,123
TOTAL LIABILITIES AND EQUITY	**₱47,272,136**	₱36,176,230

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts In Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2008	2007 (As restated, see Note 3)	2006 (As restated, see Note 3)
OPERATING REVENUES			
Sale of power:			
Distribution (Note 18)	**₱9,227,696**	₱8,797,504	₱7,915,386
Generation (Note 29)	**2,880,719**	2,412,393	701,350
Services	**61,065**	56,110	56,983
Technical, management and other service fees (Note 26)	**73,500**	45,984	7,286
	12,242,980	11,311,991	8,681,005
OPERATING EXPENSES			
Cost of purchased power (Note 30)	**6,625,385**	6,303,902	5,679,852
Cost of generated power (Note 19)	**1,904,089**	1,174,591	107,749
General and administrative expenses (Note 20)	**1,102,574**	900,450	917,306
Operations and maintenance (Note 21)	**444,909**	453,708	223,533
Depreciation and amortization (Notes 3, 10 and 11)	**511,154**	492,142	460,095
Cost of services	**2,364**	3,864	9,136
	10,590,475	9,328,657	7,397,671
FINANCIAL INCOME (EXPENSES)			
Interest income (Note 4)	**607,540**	330,913	52,996
Interest expense (Notes 26 and 27)	**(378,536)**	(197,502)	(222,647)
	229,004	133,411	(169,651)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates (Note 8)	**2,784,511**	2,803,833	1,075,844
Others - net	**376,692**	(11,152)	108,203
	3,161,203	2,792,681	1,184,047
INCOME BEFORE INCOME TAX	**5,042,712**	4,909,426	2,297,730
PROVISION FOR INCOME TAX - NET (Note 23)	**618,384**	634,333	405,076
NET INCOME	**₱4,424,328**	₱4,275,093	₱1,892,654
Attributable to:			
Equity holders of the parent	**₱4,333,613**	₱4,160,645	₱1,868,591
Minority interests	**90,715**	114,448	24,063
	₱4,424,328	₱4,275,093	₱1,892,654
EARNINGS PER COMMON SHARE (Note 24)			
Basic, for income for the year attributable to ordinary equity holders of the parent	**₱0.59**	₱0.66	₱0.37
Diluted, for income for the year attributable to ordinary equity holders of the parent	**0.59**	0.66	0.37

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006

(Amounts In Thousands, Except Dividends Per Share Amounts)

	Attributable to equity holders of the parent							
	Capital Stock (Note 17)	Subscriptions Receivables	Additional Paid-in-Capital (Note 17)	Share in Cumulative Translation Adjustments of Associates (Note 8)	Acquisition of Minority Interests (Note 1)	Retained Earnings (Note 17)	Minority Interests	Total
Balances at January 1, 2006, as previously reported	₱5,000,000	(₱319,167)	₱–	₱373,272	₱–	₱2,722,036	₱70,739	₱7,846,880
Effects of the adoption of IFRIC 12 (Note 3)	–	–	–	(58,384)	–	(378,865)	(6,650)	(443,899)
Balances at January 1, 2006, as restated	5,000,000	(₱319,167)	–	314,888		2,343,171	64,089	7,402,981
Collection of subscriptions receivable (Note 1)	–	208,487	–	–	–	–	–	208,487
Share in cumulative translation adjustments, as restated	–	–	–	(208,985)	–	–	–	(208,985)
Net income for the year, as restated	–	–	–	–	–	1,868,591	24,063	1,892,654
Total recognized income (loss) for the year, as restated	–	–	–	(208,985)	–	1,868,591	24,063	1,683,669
Cash dividends - ₱0.18 a share (Note 17)	–	–	–	–	–	(896,070)	–	(896,070)
Change in minority interests	–	–	–	–	–	–	(655)	(655)
Balances at December 31, 2006, as restated	**₱5,000,000**	**(₱110,680)**	**₱–**	**₱105,903**	**₱–**	**₱3,315,692**	**₱87,497**	**₱8,398,412**
Balances at January 1, 2007, as previously reported	₱5,000,000	(₱110,680)	₱–	₱107,427	₱–	₱3,675,580	₱90,739	₱8,763,066
Effects of the adoption of IFRIC 12 (Note 3)	–	–	–	(1,524)	–	(359,888)	(3,242)	(364,654)
Balances at January 1, 2007, as restated	5,000,000	(₱110,680)	–	105,903	–	3,315,692	87,497	8,398,412
Issuance of capital stock (Notes 1 and 17)	2,338,776	–	12,493,722	–	–	–	–	14,832,498
Collection of subscription receivable (Note 1)	–	110,680	–	–	–	–		110,680
Share in cumulative translation adjustments, as restated	–	–	–	(681,879)	–	–		(681,879)
Net income for the year, as restated	–	–	–	–	–	4,160,645	114,448	4,275,093
Total recognized income (loss) for the year, as restated	–	–	–	(681,879)	–	4,160,645	114,448	3,593,214
Change in minority interests	–	–	–	–	–	–	518,078	518,078
Acquisition of minority interests, as restated (Note 2)	19,828	–	95,172	–	(107,163)	–	(100,596)	(92,759)
Balances at December 31, 2007, as restated	**₱7,358,604**	**₱–**	**₱12,588,894**	**(₱575,976)**	**(₱107,163)**	**₱7,476,337**	**₱619,427**	**₱27,360,123**

(Forward)

	Attributable to equity holders of the parent							
	Capital Stock (Note 17)	Subscriptions Receivables	Additional Paid-in-Capital (Note 17)	Share in Cumulative Translation Adjustments of Associates (Note 8)	Acquisition of Minority Interests (Note 1)	Retained Earnings (Note 17)	Minority Interests	Total
Balances at January 1, 2008, as previously reported	₱7,358,604	₱–	₱12,588,894	(₱629,346)	(₱109,065)	₱7,814,023	₱619,424	₱27,642,534
Effects of the adoption of IFRIC 12 (Note 3)	–	–	–	53,370	1,902	(337,686)	3	(282,411)
Balances at January 1, 2008, as restated	7,358,604	–	12,588,894	(575,976)	(107,163)	7,476,337	619,427	27,360,123
Share in cumulative translation adjustments of associates	–	–	–	557,554	–	–	–	557,554
Net income for the year	–	–	–	–	–	4,333,613	90,715	4,424,328
Total recognized income for the year	–	–	–	557,554	–	4,333,613	90,715	4,981,882
Cash dividends - ₱0.18 a share (Note 17)	–	–	–	–	–	(1,324,549)	–	(1,324,549)
Change in minority interests (Note 7)	–	–	–	–	–	–	(147,847)	(147,847)
Acquisition of minority interests (Note 1)	–	–	–	–	(151,984)	–	(25,962)	(177,946)
Balances at December 31, 2008	**₱7,358,604**	**₱–**	**₱12,588,894**	**(₱18,422)**	**(₱259,147)**	**₱10,485,401**	**₱536,333**	**₱30,691,663**

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts In Thousands)

	Years Ended December 31		
	2008	2007 (As restated, see Note 3)	2006 (As restated, see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,042,712**	₱4,909,426	₱2,297,730
Adjustments for:			
Depreciation and amortization (Notes 10 and 11)	**511,154**	492,142	460,095
Interest expense	**378,536**	197,502	219,841
Net unrealized foreign exchange losses	**49,084**	98,614	7,547
Impairment loss of AFS investments	**5,254**	–	–
Dividend income	**(33)**	(11)	–
Gain on sale of property, plant and equipment	**(2,965)**	(80)	(1,489)
Interest income (Note 4)	**(607,540)**	(330,913)	(50,190)
Share in net earnings of associates (Note 8)	**(2,784,511)**	(2,803,833)	(1,075,844)
Write-off of project costs and assets	–	(2,540)	–
Operating income before working capital changes	**2,591,691**	2,560,307	1,857,690
Decrease (increase) in:			
Trade and other receivables	**42,128**	1,118,661	(726,269)
Materials and supplies	**42,579**	(74,693)	(25,264)
Other current assets	**(136,977)**	379,038	(88,409)
Increase (decrease) in:			
Trade and other payables	**(169,543)**	346,334	191,548
Customers' deposits	**197,162**	245,138	112,684
Net cash generated from operations	**2,567,040**	4,574,785	1,321,980
Income and final taxes paid	**(634,654)**	(536,350)	(456,471)
Payment for long-term obligation on power distribution system(Note 30)	**(40,000)**	(40,000)	(40,000)
Net cash flows from operating activities	**1,892,386**	3,998,435	825,509
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received	**1,930,244**	581,804	1,675,424
Interest received	**595,220**	290,038	52,875
Proceeds from sale of property, plant and equipment	**5,995**	3,151	1,553
Additions to property, plant and equipment (Note 10)	**(2,623,993)**	(1,074,786)	(747,431)
Additional investments in associates	**(3,779,977)**	(8,338,227)	(2,018)
Net collection of additional advances to associates	**(1,687,932)**	70,465	19,633
Additions to intangible assets - service concession rights	**(227,401)**	(77,101)	(73,996)
Acquisition of minority interests (Note 2)	**(177,948)**	(92,000)	–
Decrease in other noncurrent assets	**13,008**	41,954	4,965
Acquisition of a subsidiary, net of cash acquired (Note 7)	–	(100,210)	–
Net cash flows from (used in) investing activities	**(5,952,784)**	(8,694,912)	931,005

(Forward)

	Years Ended December 31		
	2008	2007 (As restated, see Note 3)	2006 (As restated, See Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt (Note 14)	**₱5,711,664**	₱–	₱–
Proceeds from availment of bank loans	**949,000**	3,460,938	–
Changes in minority interests	**221,278**	(313,216)	(655)
Payments to preferred shareholders of a subsidiary (Note 16)	**(31,070)**	(31,070)	–
Interest paid	**(299,216)**	(147,822)	(186,826)
Cash dividends paid	**(1,324,549)**	–	(896,070)
Proceeds from issuance of capital stock (Notes 1 and 17)	**–**	13,956,045	–
Payments of long-term debt (Note 14)	**–**	(330,023)	(364,819)
Collection of subscriptions receivable	**–**	110,680	208,487
Net cash flows from (used in) financing activities	**5,227,107**	16,705,532	(1,239,883)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,166,709**	12,009,055	516,631
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**460,864**	(215,516)	(7,547)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**13,287,811**	1,494,272	985,188
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱14,915,384**	₱13,287,811	₱1,494,272

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

General Information
Aboitiz Power Corporation (the Company) and its subsidiaries (collectively referred to as "the Group") were incorporated in the Republic of the Philippines. The Company is a 76.03% owned (73.44% in 2007) subsidiary of Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) and is the holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

The registered office address of the Company is Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Cebu City.

The consolidated financial statements of the Group as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, were authorized for issue by the Board of Directors (BOD) of the Company on March 31, 2009.

Initial Public Offering
In January 2007, the BOD of both AEV and the Company approved the Initial Public Offering (IPO) of the Company's shares subject to the approval of the Philippine Stock Exchange (PSE), Securities and Exchange Commission (SEC) and all other required regulatory authorities. The BOD of AEV also approved the consolidation of all AEV's power assets and the transfer of AEV's interests in various power distribution companies to the Company in exchange for the Company's shares, subject to the approval of the PSE, SEC, Bureau of Internal Revenue (BIR) and all other required regulatory authorities.

The IPO of the Company is consistent with the spirit of the EPIRA for broader public ownership of electricity distribution and generation assets. The offering will also enhance the Company's position as a participant in the privatization of National Power Corporation (NPC) assets as well as in the development and acquisition of additional power projects.

On July 16, 2007, the Company successfully completed the IPO of 1,787,664,000 common shares including the exercised greenshoe options of 48,533,565 common shares, in the Philippines. The proceeds from the IPO, net of related expenses of ₱412,406, amounted to ₱9,956,045. The common shares of the Company are now listed and traded on the First Board of the PSE. The Company is now considered a public company under Section 17.2 of the Securities Regulation Code. As a result of the IPO, the equity interest of AEV in the Company was reduced from 100% to 73.44% in 2007.

Reorganization
Prior to the Reorganization as discussed in more detail below, the Company and its subsidiaries and associates were primarily engaged in power generation and the sale of their generated power to their various customers.

On January 16, 2007, the Company entered into a share exchange (Exchange) arrangement with AEV wherein AEV transferred its ownership shares in the following power distribution companies in exchange for approximately 2,889 million shares of the Company (herein referred to as Reorganization):

	Acquired	
	% Ownership	Number of Shares
Davao Light & Power Company, Inc. (DLPC)	99.91%	299,729,524
Cotabato Light & Power Company (CLPC)	99.91%	150,689,118
Pampanga Energy Ventures, Inc. (PEVI)	42.84%	12,996,191
Visayan Electric Company, Inc. (VECO)	43.03%	3,291,719
Aboitiz Energy Solutions, Inc. (formerly Aboitiz Powersolutions, Inc.) (AESI)	100.00%	3,000,000
Subic Enerzone Corporation (SEZC)	20.00%	2,000,000
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	20.29%	540,809
Hijos de F. Escano, Inc. (HIJOS)	46.66%	13,340

The Reorganization was undertaken by the Group to consolidate its power generation and distribution assets and operations and allow the Group to enhance efficiencies and competitiveness.

The Exchange was approved by the SEC on May 3, 2007.

As a result of the above Reorganization, all the power distribution companies as mentioned above have been transferred to the Company. Accordingly, after the Reorganization, the Group is now engaged in power generation and power distribution.

The above transaction was treated as a reorganization of companies under common control and was accounted for at historical cost in a manner similar to pooling-of-interests method. Accordingly, all financial data as of and for the periods prior to the above Reorganization as presented have been restated to reflect the combination as if it had occurred from the beginning of the earliest period presented in the consolidated financial statements.

Additional acquisition of investments in the distribution companies amounting to ₱26,976 and ₱2,635 in 2007 and 2006, respectively, were reflected in the consolidated financial statements in the period of acquisition.

On June 8, 2007, as part of the reorganization of the power segment, the Company agreed to acquire from Aboitiz Land, Inc. (ALI), an affiliate, a 100% ownership interest in Mactan Enerzone Corporation (MEZC) and a 60% ownership interest in Balamban Enerzone Corporation (BEZC). MEZC and BEZC were incorporated in 2007. The transaction was treated as a business combination involving entities under common control of ACO, and such control is not transitory. The acquisition involves issuance of 151,112,722 Company's shares of stock in exchange for shares of stock of MEZC and BEZC owned by ALI. This share exchange transaction was

approved by SEC on January 10, 2008. Acquisition costs of MEZC and BEZC amounted to ₱609,532 and ₱266,921, respectively.

On March 7, 2008, the Company purchased Tsuneishi Holdings (Cebu), Inc.'s 40% equity in BEZC for a cash consideration of ₱177,948 or an excess of ₱151,984 over the book value of the share of the net assets acquired. In 2008, the excess was recognized as an acquisition of minority interests (presented as a separate line item of equity in the consolidated balance sheets). As a result of the acquisition, BEZC became a wholly owned subsidiary of the Group.

On various dates in 2007, the Company acquired from the minority 40% interest in SEZC. As a result, SEZC became a wholly owned subsidiary of the Group. The cost of acquisition of the minority amounted to ₱207,000, or an excess of ₱107,163 over the book value of the share of the net assets acquired. In 2007, the excess was recognized as an acquisition of minority interests. The said acquisition was effected through the issuance of 19,827,585 shares of stock of the Company and cash consideration of ₱92,000.

2. Significant Accounting Judgments and Estimates and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS investments which are measured at fair value. The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except for earnings per share and exchange rate and otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Group has adopted the following new and amended PFRS and Philippine International Financial Reporting Interpretations Committee (IFRIC) Interpretations as of January 1, 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2, Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, Philippine Accounting Standard (PAS) 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group except for Philippine Interpretation IFRIC 12. They did, however, give rise to additional disclosures including, in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no significant impact on the Group's financial position or performance.

Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
This Interpretation outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. A financial asset is recognized to the extent that the operator has a contractual right to receive cash from the grantor or has a guarantee from the grantor. An intangible asset is recognized to the extent that the entity has a right to charge the public for use of the asset. Philippine Interpretation IFRIC 12 becomes effective for annual periods beginning on or after January 1, 2008.

The Group has adopted Philippine Interpretation IFRIC 12 as of January 1, 2008 and applied it retrospectively, as it applies to the infrastructure and other assets constructed or acquired by the Group in connection with its service contracts with the Government of the Republic of the Philippines and certain of its agencies. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Refer to Note 3 for the detailed discussion on the impact of adopting this Interpretation.

Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. This Interpretation has no significant impact on the Group's financial position or performance.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31 of each year.

	Nature of Business	**2008**		2007		2006	
		Direct	**Indirect**	Direct	Indirect	Direct	Indirect
AESI	Energy related service provider	**100.00**	–	100.00	–	100.00	–
DLPC	Power distribution	**99.92**	–	99.92	–	99.91	–
CLPC	Power distribution	**99.91**	–	99.91	–	99.91	–
SEZC	Power distribution	**65.00**	**34.97**	65.00	34.97	20.00	44.34
MEZC	Power distribution	**100.00**	–	100.00	–	–	–
BEZC	Power generation	**100.00**	–	60.00	–	–	–
Philippine Hydropower Corporation (PHC) and Subsidiaries	Power generation	**100.00**	–	100.00	–	100.00	–
Cleanergy Inc. (formerly Northern Mini Hydro Corporation, NMHC) (CI)	Power generation	**100.00**	–	100.00	–	100.00	–

	Nature of Business	2008		2007		2006	
		Direct	**Indirect**	Direct	Indirect	Direct	Indirect
Hedcor Tamugan (formerly Hydro Specialists, Inc., HSI)	Power generation	**100.00**	–	100.00	–	100.00	–
Hedcor, Inc. (formerly Benguet Hydropower Corporation) (HI)	Power generation	**100.00**	–	100.00	–	100.00	–
Hedcor Sibulan, Inc. (HSI)	Power generation	**100.00**	–	100.00	–	100.00	–
Hydro Electric Development Corporation (HEDC)	Power generation	**99.97**	–	99.96	–	99.96	–
Kookaburra Equity Ventures, Inc.	Holding company	–	**60.00**	–	60.00	–	60.00
Cebu Private Power Corporation (CPPC)	Power generation	**60.00**	–	60.00	–	–	–
Abovant Holdings, Inc.*	Power generation	**60.00**	–	–	–	–	–
AP Renewables, Inc.*	Power generation	**100.00**	–	–	–	–	–
Thema Power-Visayas, Inc.(TPVI)*	Power generation	**100.00**	–	–	–	–	–
Thema Power, Inc. (TPI)*	Power generation	**100.00**	–	–	–	–	–
Adventenergy, Inc.*	Power generation	**100.00**	–	–	–	–	–

**Newly incorporporated companies. Abovant and APRI were incorporated in 2007. Adventenergy, TPVI and TPI were incorporated in 2008. These companies have not yet started their commercial operations as of December 31, 2008.*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (all are incorporated in the Philippines) as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Minority Interests

Minority interests represent the portion of net income or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with minority interests are accounted for using the entity concept method, whereby, transactions with minority interest are accounted for as transactions with equity holders. On acquisitions of minority interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals to minority interest is also recognized directly in equity.

Summary of Significant Accounting Policies

Investments in Associates
The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associates. The consolidated statement of income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interest in the subsidiaries of the associates.

The reporting dates of the associates and the Group are identical, and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Business Combination and Goodwill
Business combinations are accounted for using the purchase accounting method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated statement of income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with PAS 14, *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Business combination of entities under common control is accounted for using a method similar to pooling of interest. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation adjustments and goodwill is recognized in the consolidated statement of income.

Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of LHC, Western Mindanao Power Corporation (WMPC), Southern Philippines Power Corporation (SPPC) and STEAG State Power, Inc. (STEAG), associates, is the US Dollar. As at the reporting date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity under the "cumulative translation adjustments". On disposal of the

associate, the deferred cumulative amount recognized in equity relating to that particular entity is recognized in the consolidated statement of income.

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated balance sheet consist of cash in banks and on hand and short-term deposits with an original maturity of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial Assets and Liabilities
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs, if any, are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

Financial assets and financial liabilities are further classified into the following categories: Financial asset or financial liability at FVPL, loans and receivables, HTM investments,

AFS financial assets and other financial liabilities. The Group determines the classification at initial recognition and re-evaluates this designation at every reporting date, where appropriate.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases and sale of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(a) Financial asset or financial liability at FVPL

Financial assets at FVPL include financial assets classified as held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or upon initial recognition if it is designated by management as at FVPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the consolidated statement of income.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liabilities at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities may be designated at initial recognition at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

The Group does not have any financial asset or financial liability at FVPL at December 31, 2008 and 2007.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within twelve months of the balance sheet date. Otherwise, these are classified as noncurrent assets.

Included under this category are the Group's cash and cash equivalents, trade and other receivables and amounts owed by related parties.

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Group does not have any HTM investment at December 31, 2008 and 2007.

(d) AFS investments

AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments are measured at fair value with gains or losses being recognized as a separate component of equity, until the investments are derecognized or until the investments are determined to be

impaired at which time, the accumulated gains or losses previously reported in equity are included in the consolidated statement of income. These financial assets are classified as noncurrent assets unless there is an intention to dispose such assets within twelve months from the balance sheet date.

The Group's AFS investments at December 31, 2008 and 2007 include investments in quoted and unquoted shares of stock.

(e) Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at fair value through profit or loss upon the inception of the liability. These include liabilities arising from operations or borrowings.

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any directly attributable transaction costs.

Gains and losses are recognized in consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category are the Company's long-term debts, long-term obligation on power distribution system, bank loans, customers' deposits, trade and other payables and payable to preferred shareholder of a subsidiary.

Fair value of financial instruments
The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Day 1 profit and loss
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit and loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit and loss amount.

Classification of financial instruments between debt and equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Derecognition of Financial Assets and Liabilities
Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset expires;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Embedded Derivatives
An embedded derivatives is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- the hybrid or combined instrument is not recognized as at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income.

The Group has no embedded derivatives as of December 31, 2008 and 2007.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the consolidated balance sheet.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets Carried at Amortized Cost
If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost
If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments
For AFS investments, the Group assess at each balance sheet date whether there is objective evidence that an investment or Group of investment is impaired.

In case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income) is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the unaudited consolidated statement of income. If, in subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the unaudited consolidated statement of income, the impairment loss is reversed through the unaudited consolidated statement of income.

Materials and Supplies
Materials and supplies are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing materials and supplies to their present location and condition are accounted for using the weighted average method. NRV is the current replacement cost.

Property, Plant and Equipment

Except for land, property, plant and equipments are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred. Land is stated at cost less any accumulated impairment in value.

Except for the power plant equipment of CPPC, which is depreciated over the shorter of the Co-operation Period of 15 years or the estimated useful lives of the assets, depreciation of the other property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated Useful Life (in years)
Buildings, warehouses and improvements	20
Power plant equipment	9-25
Transmission and distribution equipment	
Poles and wires	30
Other components	12
Distribution transformers and substation equipment	
Power transformers	30
Other components	12
Transportation equipment	3-5
Office furniture, fixtures and equipment	2-5
Electrical equipment	5
Meters and laboratory equipment	12
Tools and others	3

Leasehold improvements are amortized over the shorter of the lease term or the life of the asset.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. Construction in progress represents structures under construction and is stated at cost. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This Interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenues,* for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with

PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement in accordance with the allowed alternative treatment under that Standard.

Intangible Asset - Service Concession Right

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value of the construction services. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated useful economic life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life is 25 years. The amortization period and the amortization method are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset - service concession right are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Investment Property

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment in value.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use

and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue Recognition

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

Sale of power

Revenue from power distribution is recognized upon supply of power to the customers. Revenue from power generation is recognized in the period actual capacity is generated and earned. Service fees are recognized as services are rendered.

Dividend income

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

Technical, management and other service fees

Technical, management and other services fees are recognized when the related services are rendered.

Interest income

Interest is recognized as it accrues taking into account the effective interest method.

Pension Benefits

The Group has defined benefit pension plans which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10%

of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately.

Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Borrowing Costs

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

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to items recognized directly in equity is recognized in the consolidated statement of changes in equity and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales tax
Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share
Basic earnings per common share are computed by dividing net income for the year attributable to the common shareholders of the parent by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared.

Diluted earnings per share amounts are calculated by dividing the net income for the year attributable to the common shareholders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive common stock equivalents.

Business Segments
For management purposes, the Group is organized into two major operating segments (power generation and distribution) according to the nature of the products and the services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The entities are the basis upon which the Group reports its primary segment information. All of the entities operate and generate revenue only in the Philippines. Geographical segment information is not presented. Financial information on business segments is presented in Note 25.

Significant Judgments and Estimates
The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosures of contingent liabilities as of December 31, 2008, 2007 and 2006. However, uncertainty about these assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments
In the process of applying the Group's accounting policies, management has made judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Determining functional currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso except for certain associates whose functional currency is the United States (US) dollar. The Philippine peso is the currency of the primary economic environment in which the Group operates and it is the currency that mainly influences the sale of power and services and the costs of power and of providing the services.

Service concession arrangements - Companies in the Group as Operators
Based on management's judgment, the provisions of IFRIC 12 apply to the SEZC's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA) and MEZC's Built-Operate-Transfer agreement with Mactan Cebu International Airport Authority. SEZC and MEZC's service concession agreements were accounted for under the intangible asset model. The Company's associates, Luzon Hydro Corporation (LHC) and STEAG State Power, Inc. (STEAG), have also determined that the provisions of IFRIC 12 apply to their power purchase agreements with National Power Corporation (NPC). LHC and STEAG's service concession agreements were accounted for under the intangible and financial asset model, respectively. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Determining fair value of customers' deposits
In applying PAS 39, *Financial Instruments: Recognition and Measurement,* on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot reasonably and reliably be estimated for purposes of alternative valuation technique in establishing their fair values since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits amounted to ₱1,571,092 and ₱1,373,932 as of December 31, 2008 and 2007, respectively (see Note 15).

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating allowance for impairment losses on investments in and advances to associates

Investments in and advances to associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The cash flows are derived from the projection for the next five years as well as the terminal value at the end of five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected cash inflows and the growth rates. The carrying amounts of the investments in and advances to associates amounted to ₱21,250,901 and ₱14,600,199 as of December 31, 2008 and 2007, respectively. No allowance for impairment losses was recognized in 2008 and 2007 (see Note 8).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2008 and 2007 amounted to ₱996,005 (see Note 9).

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2008 and 2007, the aggregate net book values of property, plant and equipment amounted to ₱6,257,643 and ₱4,101,316, respectively (see Note 10).

In 2006, pursuant to the study mandated by the Energy Regulatory Commission (ERC) on the estimated useful lives of assets applicable to all distribution utilities in the country as part of the performance-based rate regulation, the Group changed the estimated useful lives based on management's best assessment of the present factors and technology in building or fabricating the assets (see Note 10). The Group increased the estimated useful lives of power transformers, concrete poles and cables and wires used in its power distribution operations from 12 to 30 years from the date of acquisition and decreased the estimated useful lives of transportation equipment and computer equipment from 5 - 7 years to 2 - 5 years from the date of acquisition. The changes in estimated useful lives have resulted in a net reduction in depreciation expense of ₱74,375 in 2007. The Group's distribution utilities have enrolled with ERC to shift to performance-based ratemaking (PBR) in 2009.

Estimating useful lives of intangible asset - service concession rights
The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is 25 years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contract at the end of the original contract term.

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. These non-financial assets (property, plant and equipment, intangible asset - service concession rights, investment property, and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Certain impairment indicators are present. Determining the recoverable amount of property, plant and equipment and intangibles asset - service concession rights, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment and intangible asset - service concession rights are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and statement of income. As of December 31, 2008 and 2007, the aggregate net book values of these assets amounted to ₱7,706,690 and ₱5,158,039, respectively (see Notes 6, 10 and 11). No impairment losses were recognized in 2008 and 2007.

Estimating allowance for doubtful accounts
The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for doubtful accounts will increase the Group's recorded expenses and decrease current assets. As of December 31, 2008 and 2007, allowance for doubtful accounts amounted to ₱8,098 and ₱7,560, respectively. Trade and other receivables, net of valuation allowance, amounted to ₱1,991,074 and ₱1,661,120 as of December 31, 2008 and 2007, respectively (see Note 5).

Estimating allowance for materials and supplies obsolescence
The Group estimates the allowance for materials and supplies obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for materials and supplies obsolescence would increase recorded expenses and decrease current assets. No allowance for inventory obsolescence was recognized in 2008 and 2007. The carrying amount of the materials and supplies amounted to ₱332,042 and ₱374,628 as of December 31, 2008 and 2007, respectively.

Deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient

income will be available to allow all or part of the deferred income tax assets to be utilized. The Group has gross deferred income tax assets amounting to ₱66,576 as of December 31, 2008 and ₱60,677 as of December 31, 2007 (see Note 23).

Pension benefits
The determination of the Group's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22, *Pension Benefit Plans,* and include, among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Group's pension and other post-employment obligations. Retirement benefit expense amounted to ₱22,205, ₱5,451 and ₱14,324 in 2008, 2007 and 2006, respectively. The Group's pension liability amounted to ₱14,467 and ₱15,367 as of December 31, 2008 and 2007, respectively. Pension assets amounted to ₱9,720 and ₱28,752 as of December 31, 2008 and 2007, respectively.

Legal Contingencies
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements as of December 31, 2008 and 2007.

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008
The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2009

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted

for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

PFRS 8, *Operating Segments*
PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. The Group will assess the impact of this standard to its current manner of reporting segment information.

Amendments to PAS 1, *Presentation of Financial Statements*
This Amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the consolidated statement of income together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the balance sheet and owner's equity as well as additional disclosures to be included in the consolidated financial statements.

PAS 23, *Borrowing Costs*
The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
Amendments to PAS 27 will be effective on January 1, 2009 which has changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The Group expects significant changes in its accounting policies when it adopts the foregoing accounting changes effective January 1, 2009.

Amendment to PAS 32, *Financial Instruments: Presentation and PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) The instrument entitles the holder to

require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) The instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation,(c) All instruments in the subordinate class have identical features, (d) The instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are the separate transitional provisions for each standard:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  - Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated balance sheet.

- PAS 16, *Property, Plant and Equipment*
  - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Asset*.
  - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
  - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
  - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
  - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
  - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs*
  - Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investment in Associates*
  - If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
  - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  - Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interest in Joint ventures*
  - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  - When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  - Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
  - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
  - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4 *Insurance Contracts*, this is a change in circumstance, not a reclassification.
  - Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
  - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Properties*
  - Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*
  - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
  - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and

non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement -Eligible hedged items*
Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

3. Effect of Adoption of Philippine Interpretation IFRIC 12

As discussed in Note 2, the Group adopted Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, on its service concession arrangements. Accordingly, the applicable entities in the Group have recognized the consideration received or receivable in exchange for its infrastructure construction services or its acquisition of infrastructure to be used in the arrangements as either an intangible asset for the right to charge users of the public service, or a financial asset to the extent that the entity has an unconditional contractual right to receive cash or other financial asset for its construction services from or at the direction of the grantor. This Interpretation affected SEZC and MEZC, both subsidiaries; and LHC and STEAG, both associates.

Adoption of this Interpretation resulted in the following significant changes and financial impact on the consolidated financial statements:

- Derecognition of the carrying amounts of the concession assets consisting of power distribution assets of SEZC and MEZC amounting to ₱218.4 million as of January 1, 2007 and ₱327.7 million as of January 1, 2007 and December 31, 2007, respectively;

- Recognition of intangible asset by SEZC and MEZC initially at the fair values of the construction services and subsequently carried at amortized cost using the straight-line method of amortization for the intangible asset and the effective interest rate method for financial assets amounting to ₱542.8 million and ₱662.2 million as of January 1, 2007 and December 31, 2007, respectively;
- Recognition of the aggregate effect on investments in associates (LHC and STEAG), which resulted to a net decrease of ₱356.5 million and ₱287.9 million (including the effect in share in cumulative translation adjustment of associates of decrease of ₱1.5 million in 2006 and increase of ₱53.4 million in 2007) as of January 1, 2007 and December 31, 2007, respectively;
- Recognition of long-term obligation initially at the present value of the annual services fees of ₱40.0 million and amortized using effective-interest rate method over the service period which has a carrying amount of ₱299.1 million and ₱295.7 million as of January 1, 2007 and December 31, 2007, respectively;
- Recognition of the aggregate effect on retained earnings as of January 1, 2006 from the elimination of depreciation of power distribution assets; recognition of amortization of intangible asset - service concession rights and interest expense for accretion of long-term obligation; recognition of net profit on construction services; which resulted to a net decrease of ₱378.9 million as of January 1, 2006.

The effect of adopting this interpretation is an increase in the reported consolidated net income by ₱22.4 million in 2006 and by ₱22.2 million in 2007; a decrease and increase in the reported consolidated total assets of ₱65.5 million as of January 1, 2007 and ₱13.3 million as of December 31, 2007, respectively; an increase in total liabilities of ₱299.1 million as of January 1, 2007 and ₱295.7 million as of December 31, 2007; and decrease in total equity of ₱364.7 million as of January 1, 2007 and ₱282.4 million as of December 31, 2007.

The effect of adopting this Interpretation is an increase in the reported basic/diluted earnings per share in 2007 by ₱0.004 and in 2006 by ₱0.009.

4. Cash and Cash Equivalents

	2008	2007
Cash on hand and in banks (see Note 27)	**₱622,301**	₱426,051
Short-term investments	**14,293,083**	12,861,760
	₱14,915,384	₱13,287,811

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

Cash equivalents amounting to US$ 12.2 million were used to secure loans of an associate as of December 31, 2008.

The sources of interest income recognized for the period are as follows:

	2008	2007	2006
Cash and cash equivalents	**₱458,973**	₱326,952	₱46,322
Advances to related parties (see Note 26)	**148,567**	3,961	6,674
	₱607,540	₱330,913	₱52,996

5. Trade and Other Receivables

	2008	2007
Trade receivables - net of allowance for doubtful accounts of ₱8,098 in 2008 and ₱7,560 in 2007 (see Note 27)	**₱782,043**	₱856,571
Due from related parties (see Note 26)	**396,600**	–
Other receivables	**812,431**	804,549
	₱1,991,074	₱1,661,120

Trade receivables are non-interest bearing and are generally on 10 - 30 days' term.

Other receivables substantially comprise advances to contractors made by the Group and various outstanding claims.

The rollforward analysis of allowance for doubtful accounts, which pertains to trade receivables of the power distribution segment is presented below:

	2008	2007
January 1	**₱7,560**	₱16,475
Additions	**1,076**	–
Write-off/reversals	**(538)**	(8,915)
December 31	**₱8,098**	₱7,560

Trade receivables of the power distribution segment that was written off but not covered by allowance for doubtful accounts amounted to ₱66,261 (see Note 20) in 2008.

Allowance for doubtful accounts as of December 31, 2008 and 2007 pertain to receivables that are individually determined to be impaired at the balance sheet date. These relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings. These receivables are not secured by any collateral or credit enhancements.

6. Other Current Assets

	2008	2007
Input value-added tax (VAT)	**₱307,620**	₱200,975
Prepaid tax	**88,664**	94,098
Prepaid expenses	**72,086**	5,612
Deferred input VAT	**25,502**	5,059
Prepaid rent	**2,271**	904
Others	**5,007**	8,244
	₱501,150	₱314,892

7. Business Combinations and Other Acquisitions

a. Acquisition of CPPC

On April 20, 2007, the Company acquired 60% ownership in CPPC from East Asia Utilities Corporation (EAUC).

The initial accounting for the business combination that was effected in 2007 was determined only provisionally as the Company was still finalizing the fair valuation of the property, plant and equipment and the identification of possible intangible assets acquired.

The provisional fair values of the identifiable assets and liabilities of CPPC as of the date of acquisition and the corresponding carrying amount immediately before the acquisition were:

	Fair value recognized on acquisition	Previous carrying value
Cash and cash equivalents	₱77,856	₱77,856
Receivables	143,367	143,367
Spare parts and supplies	82,811	82,811
Prepayments and other current assets	85,062	85,062
Property, plant and equipment	353,633	964,313
Accounts payable and accrued expenses	(314,225)	(314,225)
Other liabilities	(131,728)	(131,728)
Net assets	296,776	₱907,456
Minority interests (40%)	118,710	
Total net assets acquired	178,066	
Total consideration	₱178,066	

The total cost of the CPPC combination was cash consideration of ₱178,066. Net cash outflow from the acquisition amounted to ₱100,210.

The completion in 2008 of the purchase accounting for the acquisition of CPPC did not result in material changes from the provisional accounting made in 2007.

From the date of the acquisition up to December 31, 2007, CPPC has contributed ₱162,623 to the net income of the Group.

b. Acquisitions of EAUC and STEAG

On April 20, 2007, the Company acquired 50% ownership in EAUC from El Paso Philippines Energy Company, Inc. The total cost of the EAUC acquisition amounted to ₱1,009,143, composed of a cash consideration of ₱130,765 and assumption of liabilities of ₱878,378.

The initial accounting for the EAUC acquisition that was effected in 2007 was determined only provisionally as the Company was still finalizing the fair valuation of the property, plant and equipment and other assets acquired. The completion in 2008 of the purchase accounting did not result in material changes from the provisional accounting made in 2007.

On November 15, 2007, the Company acquired 34% in STEAG from Evonik Industries, Inc. The total cost of the STEAG acquisition amounted to ₱4,400,611 which is composed of cash consideration of ₱4,378,783 (US$101,561 at US$1=43.12) and costs directly attributed to the acquisition amounting to ₱21,828.

From the dates of acquisition up to December 31, 2007, EAUC and STEAG have contributed ₱61,638 and ₱94,781, respectively, to the net income of the Group.

c. Significant Business Acquisitions by Associates

i.) Acquisition of Magat Plant

In January 2008, PSALM issued the Notice of Award to SN Aboitiz Power (SNAP), an associate of Manila Oslo Renewable Enterprise, Inc. (MORE, an associate) officially declaring it as the winning bidder for the 360 Megawatt Magat Hydroelectric Power Plant (Magat Power Plant) in Ramon, Isabela. The Asset Purchase Agreement (APA) originally required SNAP to deliver at least 40% of the purchase price as upfront payment payable on or before the closing date. The balance of 60% may be paid in 14 equal semi-annual payments with an interest of 12% per annum compounded semi-annually. On April 25, 2008, SNAP paid 70% of the US$530 million purchase price for the Magat Power Plant, which was turned over to SNAP on April 26, 2008. The payment of the 30% balance was likewise accelerated in October 2008 using proceeds from a common term loan obtained from consortium of foreign and local banks.

SNAP accounted for the purchase of the Magat Power Plant under the purchase method.

The accounting for the business combination that was effected in 2007 was determined provisionally as SNAP has incomplete information as of report date with respect to possible recognition of intangible assets arising from the acquisition.

The respective fair values of the identifiable assets related to the acquisition that are provisionally recognized are:

Property, plant and equipment	
Buildings	₱6,957,882
Machinery and equipment	7,264,320
Electrical equipment	277,815
Other land improvements	215,339
Transportation equipment	2,490
Furniture and office equipment	1,199
Other equipment	93,381
Inventories	108,404
	14,920,830
Goodwill arising on acquisition	10,294,434
Total consideration	₱25,215,264

The total cost of the combination was ₱25,215,264, which comprised the purchase price and costs directly attributable to the combination.

Cost	
Purchase price of US$530 million at US$1 = ₱47.54 at April 25, 2008	₱25,194,610
Cost directly associated with the acquisition	20,654
	₱25,215,264

The completion by SNAP-Magat in 2008 of the purchase accounting for the acquisition of the Magat Plant resulted in the recognition of deferred income tax asset amounting to ₱786.0 million arising from the temporary deductible difference on the power plant which reduced the goodwill determined provisionally by the same amount. However, this did not have any material effect on the Group's share in net earnings of SNAP-Magat in 2007.

From the date of acquisition up to December 31, 2007, the Magat Power Plant has contributed ₱1,615,140 to the net income of the Group.

ii.) Acquisition of Ambuklao-Binga Plant

On November 28, 2007, SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet, formerly SN Aboitiz Power Hydro, Inc.), another associate, won the auction for the 175-MW Ambuklao-Binga hydropower facilities with a bid of US$325 million.

The Asset Purchase Agreement (APA) originally required SNAP-Benguet to deliver at least 40% of the purchase price as upfront payment payable on or before the closing date. The balance of 60% may be paid in fourteen (14) equal semi-annual payments with an interest of 12% per annum compounded semi-annually. On July 10, 2008, PSALM turned over the possession and control of the 175-MW Ambuklao-Binga Hydroelectric Power Plant Complex (Ambuklao-Binga HEPPC) to SNAP-Benguet, following payment by SNAP-Benguet of 70% of the purchase price to PSALM. SNAP-Benguet started the commercial operations of the Binga Power Plant on July 11, 2008. The Ambuklao Power Plant is currently undergoing rehabilitation.

On August 8, 2008, SNAP-Benguet signed a US$375 million loan agreement with a consortium of international and domestic financial institutions. The loan facility was used to pay the 30% balance of the purchase price and will partially finance the rehabilitation and refurbishment of the 175-MW Ambuklao-Binga HEPPC and refinance SNAP-Benguet's advances from shareholders with respect to the acquisition of the Ambuklao-Binga HEPPC.

SNAP-Benguet accounted for the purchase of the Ambuklao-Binga plant under the purchase method.

The provisional fair values of the identifiable assets of the Power Plants as of the date of acquisition follows:

Property, plant and equipment	
Buildings	₱2,567,302
Machinery and equipment	1,192,438
Electrical equipment	662,221
Furniture and fixtures	281
Materials and supplies	24,200
	4,446,442
Goodwill arising on acquisition	10,468,218
Total consideration	₱14,914,660

The accounting for the business combination that was effected during the period was determined provisionally as SNAP-Benguet has incomplete information as of report date with respect to possible recognition of certain intangible assets and deferred income tax assets arising from the acquisition.

The total cost of the business combination was ₱14.9 billion, consisting of the purchase price of US$325 million with a peso equivalent of ₱14.8 billion and costs directly attributable to the acquisition of ₱98.6 million. The exchange rate was ₱45.59 per US$1.00 at July 10, 2008.

From the date of acquisition up to December 31, 2008, SNAP-Benguet has contributed ₱21,971 to the Group's consolidated net income.

d. Acquisition of Tiwi-MakBan from PSALM

In July 2008, PSALM issued the Notice of Award to AP Renewables, Inc. (APRI), a subsidiary, officially declaring APRI as the winning bidder for the 289-MW Tiwi Geothermal Power Plant located in Tiwi, Albay and the 458-MW Makiling-Banahaw (MakBan) Geothermal Power Plant located in Laguna and Batangas Provinces.

The APA for the Tiwi-MakBan geothermal complex between PSALM and APRI became effective on August 26, 2008. Under the terms of the APA, APRI is required to deliver 40% of the purchase price of $447 million as up-front payment payable on or before the closing date. The balance of 60% may be paid in fourteen (14) semi-annual payments with an interest of 12% per annum compounded semi-annually. The closing date for the acquisition shall be 60 to 270 days from the effective date of the APA, at which date PSALM will turn over to APRI the Tiwi-MakBan geothermal complex on the condition that it will operate, maintain and rehabilitate the complex in the ordinary and usual course of business. The acquisition has not been closed yet as of March 31, 2009. APRI expects the turn over of the complex in May 2009.

APRI will account for the purchase of the Tiwi-MakBan geothermal plants under the purchase method.

8. Investments in and Advances to Associates

	2008	2007 (As restated, see Note 3)
Acquisition cost:		
Balance at beginning of the year	**₱12,607,938**	₱3,391,333
Additions during the year	**3,779,977**	9,216,605
Balance at end of year	**16,387,915**	12,607,938
Accumulated equity in net earnings:		
Balance at beginning of the year	**2,979,930**	771,686
Effect of adoption of IFRIC 12 as previously reported (see Note 3)	**(341,228)**	(355,023)
Balance at beginning of the year, as restated	**2,638,702**	416,663
Share in net earnings, as restated	**2,784,511**	2,803,833
Cash dividends received	**(2,159,272)**	(581,794)
Balance at end of year	**3,263,941**	2,638,702
	19,651,856	15,246,640
Share in cumulative translation adjustments of associates, as previously reported	**(18,422)**	(629,346)
Effect of adoption of IFRIC 12	**–**	53,370
Share in cumulative translation adjustments of associates, as restated	**(18,422)**	(575,976)
Investments in shares of stock at equity	**19,633,434**	14,670,664
Advances to (from) associates - net (Note 26)	**1,617,467**	(70,465)
	₱21,250,901	₱14,600,199

The Group's associates and the corresponding equity ownership are as follows:

	Nature of Business	2008	2007	2006
Manila-Oslo Renewable Enterprise Inc. (MORE)	Holding company	**83.33**	83.33	50.00
Visayan Electric Company, Inc. (VECO)	Power distribution	**55.11**	55.05	54.70
LHC	Power generation	**50.00**	50.00	50.00
EAUC	Power generation	**50.00**	50.00	–
Bakun Power Line Corporation*	Energy related service provider	**50.00**	50.00	50.00
Redondo Peninsula Energy, Inc. (RP Energy)***	Power generation	**50.00**	–	–
Hijos de F. Escano, Inc. (HIJOS)	Holding company	**46.66**	46.66	46.66
Cebu Energy Development Corporation (CEDC)***	Power generation	**26.40**	–	–
San Fernando Electric Light and Power Co., Inc. (SFELAPCO)	Power distribution	**43.78**	43.78	43.78

(Forward)

	Natureof Business	**2008**	2007	2006
Pampanga Energy Ventures Inc. (PEVI)	Holding company	**42.84**	42.84	42.84
Cordillera Hydro Corporation*	Power generation	**35.00**	35.00	35.00
STEAG	Power generation	**34.00**	34.00	–
Southern Philippines Power Corporation (SPPC)	Power generation	**20.00**	20.00	20.00
Western Mindanao Power Corporation (WMPC)	Power generation	**20.00**	20.00	20.00
SN Aboitiz Power - Magat, Inc. (formerly SN Abotiz Power Inc.)	Power generation	**50.00**	50.00	–
SN Aboitiz Power Benguet Inc. (formerly SN Aboitiz Power Hydro, Inc.) **	Power generation	**50.00**	50.00	–

**No commercial operations.*
***Started commercial operations on July 11, 2008 (see Note 7c).*
****Has not yet started commercial operations as of December 31, 2008.*

The Group does not consolidate MORE because of absence of control resulting from the shareholders agreement, which among others stipulate the management and operation of MORE. Management of MORE is vested in its BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include financial and operating undertakings The Group also does not consolidate VECO as the other shareholders' group, have the control over the financial and operating policies of VECO.

The carrying values of investments in associates (including embedded goodwill), which are accounted for under the equity method follows:

	2008	2007 (As restated, see Note 3)
MORE	**₱8,823,278**	₱5,437,183
STEAG	**4,973,051**	4,076,968
LHC	**1,322,173**	1,058,782
EAUC	**1,182,972**	1,070,781
VECO	**982,204**	1,029,640
HIJOS	**875,907**	881,193
WMPC	**445,573**	402,014
SPPC	**325,558**	279,884
RP Energy	**278,886**	–
PEVI	**221,423**	226,110
SFELAPCO	**169,456**	176,269
Others	**32,953**	31,840
	₱19,633,434	₱14,670,664

The investments in associates SFELAPCO, VECO and STEAG include goodwill with an aggregate amount of ₱997,749 and ₱976,529 in 2008 and 2007, respectively.

Following is the summarized financial information of significant associates:

	2008	2007 (As restated, see Note 3)	2006 (As restated, see Note 3)
MORE			
Total current assets	**₱130,338**	₱50,565	₱6
Total noncurrent assets	**10,413,303**	6,662,968	55
Total current liabilities	**242,529**	281,536	58
Total noncurrent liabilities	**253,351**	–	–
Gross revenue	**104,542**	30,092	–
Gross profit	**104,542**	30,092	–
Depreciation and amortization	**7,033**	3,095	–
Interest expense (income) - net	**220**	(147)	
Income tax - net	**–**	–	–
Net income	**693,458**	1,937,141	–
LHC			
Total current assets	**₱364,594**	₱1,294,061	₱525,101
Total noncurrent assets	**4,954,809**	4,442,141	5,536,611
Total current liabilities	**456,638**	1,427,660	1,496,590
Total noncurrent liabilities	**2,218,420**	2,190,979	2,795,042
Gross revenue	**1,088,083**	1,836,412	2,003,825
Gross profit	**735,206**	1,449,319	1,587,292
Depreciation and amortization	**262,123**	274,543	305,763
Interest expense - net	**147,113**	224,087	122,306
Income tax expense (benefit) - net	**(97,876)**	138,085	17,029
Net income	**1,080,494**	990,397	1,337,818
VECO *			
Total current assets	**₱1,604,521**	₱5,435,799	₱1,875,405
Total noncurrent assets	**3,847,626**	3,453,827	3,393,781
Total current liabilities	**1,334,456**	1,350,698	1,265,995
Total noncurrent liabilities	**1,563,324**	1,403,978	1,406,545
Gross revenue	**9,899,115**	9,388,743	8,330,662
Gross profit	**396,922**	425,020	337,671
Depreciation and amortization	**370,382**	345,282	365,267
Interest expense - net	**42,886**	21,501	14,256
Income tax - net	**269,690**	252,982	199,681
Net income	**512,732**	490,049	377,839

(Forward)

	2008	2007 (As restated, see Note 3)	2006 (As restated, see Note 3)
WMPC			
Total current assets	**₱833,371**	₱400,547	₱1,095,481
Total noncurrent assets	**2,043,482**	2,138,617	2,994,046
Total current liabilities	**291,247**	362,663	568,740
Total noncurrent liabilities	**357,740**	173,546	1,156,382
Gross revenue	**1,283,784**	1,237,761	1,390,266
Gross profit	**842,613**	742,945	818,523
Depreciation and amortization	**441,171**	9,656	8,768
Interest expense (income) - net	**22,396**	(34,830)	103,878
Income tax – net	**318,255**	102,580	133,922
Net income	**415,925**	501,123	484,931
SPPC			
Total current assets	**₱337,742**	₱270,257	₱434,545
Total noncurrent assets	**1,614,027**	1,850,349	2,171,066
Total current liabilities	**163,484**	282,222	392,316
Total noncurrent liabilities	**160,496**	150,592	619,033
Gross revenue	**691,420**	602,592	786,129
Gross profit	**413,833**	322,936	406,869
Depreciation and amortization	**277,586**	279,656	330,867
Interest expense (income) - net	**9,992**	(42,394)	78,164
Income tax - net	**139,646**	14	26,784
Net income	**128,069**	212,660	193,804
SFELAPCO *			
Total current assets	**₱334,517**	₱411,271	₱341,135
Total noncurrent assets	**1,109,581**	913,029	953,443
Total current liabilities	**321,290**	386,666	385,437
Total noncurrent liabilities	**350,541**	285,884	293,151
Gross revenue	**2,327,357**	2,830,017	2,635,054
Gross profit	**490,418**	230,589	110,440
Depreciation and amortization	**113,350**	108,628	93,479
Interest expense (income) - net	**5,838**	(6,566)	(2,287)
Income tax – net	**11,878**	34,871	35,828
Net income	**53,333**	105,672	59,873
STEAG **			
Total current assets	**₱7,081,353**	₱4,277,143	
Total noncurrent assets	**12,129,785**	10,803,396	
Total current liabilities	**33,189,506**	1,875,742	
Depreciation and amortization	**85,511**	45,767	
Interest expense - net	**667,937**	785,936	
Income tax – net	**90,705**	100,301	
Net income	**3,216,793**	1,672,614	

(Forward)

	2008	2007 (As restated, see Note 3)	2006 (As restated, see Note 3)
EAUC**			
Total current assets	**₱428,112**	₱619,889	
Total noncurrent assets	**3,128,757**	1,561	
Total current liabilities	**282,265**	415,579	
Total noncurrent liabilities	**298,584**	1,561,880	
Gross revenue	**1,579,424**	1,568,888	
Gross profit	**153,079**	110,805	
Depreciation and amortization	**116,877**	121,462	
Interest expense - net	**–**	–	
Income tax - net	**9,244**	8,222	
Net income	**126,927**	66,913	

*Amounts are based on appraised values which are adjusted to historical amounts upon equity take-up of the Company. Using cost method in accounting for property, plant and equipment, depreciation and amortization amounted to ₱314,499, ₱291,554 and ₱295,802, in 2008, 2007 and 2006, respectively, for VECO; and ₱56,900, ₱58,977 and ₱41,742 for 2008, 2007 and 2006, respectively, for SFELAPCO. Under the same method, net income amounted to ₱565,273, ₱530,333 and ₱422,991 in 2008, 2007 and 2006, respectively, for VECO; and ₱66,420, ₱138,854 and ₱94,453 for 2008, 2007 and 2006, respectively, for SFELAPCO.

**Acquired in 2007.

9. Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to individual cash-generating units.

The carrying amount of goodwill follows:

	2008	2007
CI (formerly NMHC)	**₱220,228**	₱220,228
MEZC	**538,373**	538,373
BEZC	**237,404**	237,404
	₱996,005	₱996,005

The recoverable amounts of the investments have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Key assumptions used in value-in-use calculation for December 31, 2008

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates and Growth rates
The discount rate applied to cash flow projections are from 11.70% to 14.09% in 2008 and from 9.16% to 10.16% in 2007, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Revenue assumptions
Revenues assumptions are based on the expected electricity sold. Revenue growth of 2% per annum was applied to MEZC; and 50% in year 1, 40% in year 2 and 2% from years 3 to 5 for BEZC.

Materials price inflation
The assumption used to determine the value assigned to the materials price inflation is a 210 basis point decrease in inflation in 2009, which then decreases by 70, 50 and 50 basis points on the second, third and fourth year, respectively, and remains steady starting on the fifth year. The starting point of 2009 is consistent with external information sources.

Based on the impairment testing, no impairment was recognized in 2008 and 2007.

With regard to the assessment of value-in-use of CI, MEZC and BEZC, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

10. Property, Plant and Equipment

As of December 31, 2008

	2007 (As restated, see Note 3)	Additions	Disposals	Reclassifications	2008
COST					
Land	₱93,620	₱6,528	₱–	₱–	₱100,148
Buildings, warehouses and improvements	162,237	1,822	(21,776)	31,783	174,066
Power plant equipment	3,363,442	138,137	(103,468)	28,266	3,426,377
Transmission and distribution equipment	2,341,306	241,620	(311)	50,286	2,632,901
Distribution transformers and substation equipment	1,459,733	37,280	–	118,472	1,615,485
Transportation equipment	280,498	30,123	(7,208)	581	303,994
Office furniture, fixtures and equipment	397,250	27,835	(389)	1,371	426,067
Leasehold improvements	116,557	6,111	–	–	122,668
Electrical equipment	40,857	13,334	(31)	–	54,160
Meters and laboratory equipment	261,641	30,128	(320)	–	291,449
Tools and others	156,957	39,489	(147)	(2)	196,297
Construction in progress	689,383	2,179,497	(88,614)	(201,890)	2,578,376
	9,363,481	2,751,904	(222,264)	28,867	11,921,988
ACCUMULATED DEPRECIATION AND AMORTIZATION					
Buildings, warehouses and improvements	65,505	10,693	–	–	76,198
Power plant and equipment	2,281,249	187,069	(100,833)	(3,245)	2,364,240
Transmission and distribution equipment	1,194,153	132,506	(310)	(481)	1,325,868
Distribution transformers and substation equipment	750,867	59,145	–	–	810,012
Transportation equipment	194,329	30,393	(7,207)	24	217,539
Office furniture, fixtures and equipment	341,771	47,241	(389)	–	388,623
Leasehold improvements	105,156	3,208	–	3,221	111,585
Electrical equipment	30,335	3,080	–	–	33,415
Meters and laboratory equipment	184,635	25,213	(88)	–	209,760
Tools and others	114,165	12,606	(147)	481	127,105
	5,262,165	511,154	(108,974)	–	5,664,345
	₱4,101,316	₱2,240,750	(₱113,290)	₱28,867	₱6,257,643

As of December 31, 2007 (as restated, see Note 3)

	2006	Business combinations (Note 7)	Additions	Disposals	Reclassifications	2007
COST						
Land	₱83,790	₱–	₱10,769	₱–	(₱939)	₱93,620
Buildings, warehouses and improvements	134,338	–	27,899	–	–	162,237
Power plant equipment	1,810,438	1,481,510	149,183	(19,066)	(58,623)	3,363,442
Transmission and distribution equipment	2,035,529	–	174,904	–	130,873	2,341,306
Distribution transformers and substation equipment	1,243,100	–	10,307	–	206,326	1,459,733
Transportation equipment	244,432	254	38,162	(2,294)	(56)	280,498
Office furniture, fixtures and equipment	357,110	15,015	30,535	(425)	(4,985)	397,250
Leasehold improvements	100,055	16,133	369	–	–	116,557
Electrical equipment	36,047	–	4,810	–	–	40,857
Meters and laboratory equipment	234,853	–	26,584	–	204	261,641
Tools and others	43,330	107,437	9,303	(3,113)	–	156,957
Construction in progress	316,478	–	591,961	–	(219,056)	689,383
	6,639,500	1,620,349	1,074,786	(24,898)	53,744	9,363,481
ACCUMULATED DEPRECIATION AND AMORTIZATION						
Buildings, warehouses and improvements	57,346	–	8,159	–	–	65,505
Power plant and equipment	947,530	1,166,459	212,316	(17,005)	(28,051)	2,281,249
Transmission and distribution equipment	1,076,997	–	99,146	–	18,010	1,194,153
Distribution transformers and substation equipment	716,703	–	29,954	–	4,210	750,867
Transportation equipment	165,368	254	53,221	(2,294)	(22,220)	194,329
Office furniture, fixtures and equipment	280,983	13,243	47,910	(365)	–	341,771
Leasehold improvements	96,023	7,105	2,028	–	–	105,156
Electrical equipment	24,603	–	5,732	–	–	30,335
Meters and laboratory equipment	161,562	–	23,073	–	–	184,635
Tools and others	26,258	79,655	10,603	(2,351)	–	114,165
	3,553,373	1,266,716	492,142	(22,015)	(28,051)	5,262,165
	₱3,086,127	₱353,633	₱582,644	(₱2,883)	₱81,795	₱4,101,316

In 2008, borrowing costs capitalized as part of construction in progress amounted to ₱48.7 million (see Note 14). The reclassifications made in 2008 and 2007 pertain mostly to completed projects of the subsidiaries.

In 2006, the Group increased the estimated useful lives of power transformers, concrete poles, and cables and wires used in its power distribution operations from 12 years to 30 years from the date of acquisition and decreased the estimated useful lives of transportation equipment and computer equipment from 5 - 7 years to 2 - 5 years from the date of acquisition. The changes in the estimated useful lives were made on the basis of management's best assessment of the present factors and technology in building or fabricating the assets which is in accordance with the study mandated by the ERC on the estimated useful lives of assets applicable to all distribution utilities in the country, as part of the PBR regulation. The changes in estimated useful lives have resulted in a net reduction in depreciation expense by ₱74.4 million in 2007 and will reduce depreciation by about ₱66 million annually in future years.

Property, plant and equipment with carrying amounts of ₱3,220.0 million and ₱888.8 million as of December 31, 2008 and 2007, respectively, are used to secure the Group's long-term debts (see Note 14).

Fully depreciated transmission and distribution equipment and distribution transformers and substation equipment with gross carrying amount of ₱1,398.1 million and ₱824.8 million as of December 31, 2008 and 2007 are still in use.

11. **Intangible Asset - Service Concession Rights**

	2008	2007 (As restated, see Note 3)
Cost:		
At January 1	**₱747,384**	₱599,938
Business combination (see Note 1)	**–**	70,345
Additions (see Note 30g)	**227,149**	77,101
Disposals	**(1,001)**	–
	973,532	747,384
Accumulated amortization:		
At January 1	**85,195**	55,441
Business combination (see Note 1)	**–**	1,699
Amortization	**35,397**	28,055
Disposals	**(1,253)**	–
	119,339	85,195
	₱854,193	₱662,189

Management believes that, based on the assessment performed, the intangible asset - service concession rights are not impaired.

12. **Trade and Other Payables**

	2008	2007
Related parties - non trade (see Note 26)	**₱1,567,100**	₱1,089,007
Trade payables (see Note 28)	**985,630**	1,163,650
Other liabilities	**592,581**	441,457
	₱3,145,311	₱2,694,114

13. **Bank Loans**

On November 13, 2007, the Company obtained an unsecured dollar-denominated loan amounting to U.S.$81.0 million from local banks to finance the purchase of 34% in STEAG. The loan, which will mature on February 11, 2008, bears interest rate at London Interbank Market Interest Rate plus certain spread which shall be payable monthly. Interest rates ranged from 3.28% to 5.79% in 2008 and 5.20% to 5.65% in 2007. In February 2009, the loan was extended to March 2009.

In 2008, DLPC, a subsidiary, availed of unsecured peso denominated, short-term loans from local banks amounting to ₱774.3 million. These loans bear an interest rates ranging from of 8.25% to 8.75%, which shall be payable monthly. These loans were fully paid on February 17, 2009.

In 2008, CLPC, a subsidiary, obtained from local banks unsecured peso denominated, short-term loans amounting ₱177.4 million. These loans bear interest rates ranging from 8.25% to 9.00% which shall be payable monthly. These loans were fully paid on February 17, 2009.

14. **Long-term Debts**

	Interest Rate	**2008**	2007
Company			
Financial institutions - unsecured			
Tranche 1 or 5-year corporate note	8.78%	**₱3,330,000**	~~₱~~ –
Tranche 2 or 7-year corporate note	9.33%	**560,000**	–
HSI			
Financial institutions - secured	8.52%	**1,715,796**	–
HI			
Financial institution - secured	2.25% over the applicable 3-month Treasury Securities rate	**647,000**	648,000
SEZC			
Financial institution - secured	9.50%	**341,000**	185,048
CLPC			
Financial institution - secured	8.78%	–	7,038
Total		**6,593,796**	840,086
Less deferred financing costs		**71,799**	2,200
		6,521,997	837,886
Less current portion		**16,145**	20,371
		₱6,505,852	~~₱~~817,515

Company

On December 18, 2008 (issue date), the Company availed a total of ₱3.89 billion from the Notes Facility Agreement it signed on December 15, 2008, with BDO Capital & Investment Corporation, BPI Capital Corporation, First Metro Investment Corporation, ING Bank N.V., Manila Branch as Joint Lead Managers. The Notes Facility Agreement provided for the issuance of 5-year and 7-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules.

Prior to the maturity date, the Company may redeem in whole the relevant outstanding notes on the 12th interest payment date for Tranche 1 note and on the 16th interest payment date for Tranche 2 note. The amount payable in respect of such early redemption shall be the accrued interest on the outstanding principal amount, the outstanding principal amount and a prepayment penalty of 2% of the outstanding principal amount.

Unamortized deferred debt issuance cost reduced the carrying amount of long-term debt by ₱42.0 million in 2008.

HSI

On May 21, 2008, HSI and the Company entered into an agreement with local banks for a loan facility in the aggregate principal amount of up to ₱3.57 billion to partially finance the design, development, procurement, construction, operation and maintenance of the 42.5-MW Sibulan hydro-electric power plant.

Repayment terms of the loan are as follows:

- 70% of the principal amount of the loan is payable in semi-annual installments within 12 years commencing on the 30th month from September 1, 2008.

- A balloon payment equivalent to 30% of the loan principal on the final principal amortization date.

HSI has the option to prepay the loan at par without premium or penalty beginning on the fourth year from the initial advance.

Interest on the loan for the first five years is fixed at 8.52%. For the remaining seven-year period interest rate will be fixed at the prevailing seven-year PDST- F interest rate for the day immediately preceding the fixed interest setting date plus 1.125%.

Loan covenant include among others, the establishment and maintenance of certain project accounts depositories under the control of appointed trustees of the lenders, submission of certain reports and others.

The loan is secured by a real estate and chattel mortgages on real assets and all machineries, equipment and other properties, actually located at the project site or plant site used in the project.

Interest on the loan capitalized as construction in progress in 2008 amounted to ₱37.6 million.

HI

The loan availed by HI from Equitable - PCI Bank is a five-year loan of which ₱450 million is payable at ₱1 million per year starting 2006 with the remaining balance fully payable on January 28, 2010, and ₱200 million is subject to a balloon payment on October 20, 2010. It bears interest at 2 1/4 % over the applicable three-month treasury securities as displayed on MART 1 page of Bloomberg of the rate setting day plus gross receipts tax, reviewable and payable quarterly. The loan is secured by a chattel mortgage over the machineries and improvements of the Benguet and Davao hydropower plants of HI and a suretyship of the Company.

Loan covenant includes, among others, maintenance of current ratio of at least 1:1 and debt-equity ratio of 15:1 every first semester and 7:1 every end of year, and restrictions such as not to incur any debt with a maturity of more than one year without bank notification, no substantial change in present majority ownership or management, not to enter into any merger or consolidation, sell, lease, mortgage, hypothecate, pledge or otherwise transfer 51% or more of its assets.

SEZC

The loan availed of by SEZC in 2007 pertains to a term loan for assistance in the financing of the Phase 1 rehabilitation of the SBMA Power Distribution System (PDS). The ₱185 million loan it has fully drawn from the facility in 2007 was refinanced on June 26, 2008, with a term loan facility of up to a total amount of ₱285 million. As of October 31, 2008, SEZC has drawn ₱210 million from the facility. The refinanced loan is payable in twelve years (inclusive of a one year grace period on principal repayment) in twenty-two equal semi-annual installments commencing on December 26, 2009. It bears an interest of 10.02%, which is fixed for the first seven years. For the succeeding five years, the interest will be fixed based on the applicable five-year PDST-R1 on the first day of the eighth year plus 100 basis points.

On September 24, 2008, SEZC availed a term loan of ₱131 million to finance the acquisition of subtransmission assets and to enhance the rehabilitation and expansion of the SBMA PDS. The loan is payable in twelve years (inclusive of a one-year grace period on principal repayment) in twenty-two equal semi-annual installments commencing on March 24, 2010. It bears an interest of 8.26%, which is fixed for the first seven years. For the succeeding five years, the interest will be fixed based on the applicable five-year PDST-R1 on the first day of the eighth year plus 100 basis points.

The loan is secured by surety of the stockholders and assignment of rights and benefits of the Company related to revenue receivable and new equipment and assets to be purchased and used in the SBMA PDS. The term loan agreement prohibits the Company to make or permit a material change in the character, ownership or control of its business, to secure any indebtedness, to sell, lease, transfer or dispose of all or substantially all of its properties, assets and investments. The agreement also does not permit the Company to exceed the allowed ratio of debt to equity nor be less than the allowed ratio of current assets to current liabilities. The adoption of Philippine Interpretation IFRIC 12 caused its debt-to-equity ratio to exceed the maximum 3:1 limit as required by the above term loans. Prior to adopting and upon assessing the financial impact of the Interpretation on its financial statements, the Company's management initiated talks and negotiations with creditor bank on securing a waiver on the debt-to-equity requirement as contained in the loan agreements. In December, 2008, the creditor bank agreed to revise the debt-to-equity ratio. On January 30, 2009, the creditor bank confirmed that the debt-to-equity ratio of the Company for the year 2008 may go up to 4:1.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱1.7 million in 2008 and by ₱2.2 million in 2007.

CLPC

The loan availed by CLPC from UBP pertains to a term loan to partially finance capital and regular expenditures for the rehabilitation and modernization of its distribution system. The loan is payable in five years (inclusive of a two-year grace period) in thirteen quarterly installments of ₱2.3 million starting September 26, 2005 and bears interest at a fixed rate of 8.78%.

The loan is secured by a mortgage trust indenture in favor of the designated trustee, for the pari-passu and pro rata benefit of the creditor banks, covering CLPC's utility plant, property and equipment with a carrying value of ₱59.6 million as of December 31, 2007. The outstanding balance as of December 31, 2007 amounting to ₱7.04 million was fully paid on September 25, 2008, and CLPC was consequently released from the MTI covering its utility plant, property and equipment.

15. Customers' Deposits

	2008	2007
Transformer deposits	**₱609,545**	₱572,492
Lines and poles deposits	**656,937**	542,724
Bill deposits	**304,610**	258,716
	₱1,571,092	₱1,373,932

Transformer and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are non-interest bearing and are refundable only after their related contract is terminated and the assets are returned to the Group in their proper condition and all obligations and every account of the customer due to the Group shall have been paid.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and DSOAR also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may now apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

With regard to the interest rate on customer deposits, while the Implementing Guidelines of the Magna Carta provided that the interest rate on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the ERB Resolution No. 95-21, it was silent on the corresponding interest rate for bill deposits of residential customers for the same period. ERB Resolution No. 95-21 was issued by the then ERB on August 3, 1995 adopting a 10% interest on customers' deposits. The DSOAR superseded ERB Resolution No. 95-21, as amended, in its entirety.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Accrued interest on bill deposits amounting to ₱30,042 and ₱30,622 as of December 31, 2008 and 2007, respectively, is included under "Trade and Other Payables" in the consolidated balance sheets.

In cases where the customers has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to pose another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

16. Payable to Preferred Shareholder of a Subsidiary

The preferred shares of a subsidiary are voting, non-convertible, cumulative, non-participating and have no preemptive rights. The preferred shares shall be issued only to VECO who, as holder of the preferred shares, shall be entitled to receive cash dividends thereon at an annual rate of 20.713% and, payable out of available surplus or net profits of the Company before any dividend shall be declared, set apart for or paid upon the common stock of the Company. The guaranteed minimum amount of annual dividends on these preferred shares is ₱31.1 million, which is payable within 60 days from end of a contract year (i.e. November 25). Any unpaid dividends shall be subject to interest equivalent to the rate of a 91-day Treasury Bill plus 5% per annum prevailing as of the preferred dividends accrual date.

After payment of the cumulative cash dividends on the preferred shares, the said preferred shares shall have no further right to participate in any dividends which may be declared to the common shareholders unless and until the aggregate of all cash dividends already declared and paid to the common shares has resulted in the holders of the common shares having recovered the agreed internal rate of return on their total equity investment in common shares. The common shareholders and VECO shall then be entitled to participate in such residual dividends at 77% and 23%, respectively.

PAS 32 and 39 require reclassification of the preferred shares amounting to ₱150.0 million as a financial instrument containing a liability and an equity component. The liability component was remeasured at present value by discounting the minimum guaranteed dividend payments. The difference between the present value and the carrying amount amounting to ₱18.5 million pertains to the equity component.

The discounted liability is accreted to maturity values using the effective interest method. Accretions are recognized in the consolidated statements of income as part of interest expense. Total interest expense arising from the accretion amounted to ₱23.6 million and ₱24.4 million in 2008 and 2007.

Future minimum guaranteed dividend payments are as follows:

	2008	2007
Due within one year	**₱31,070**	₱31,070
More than one year but not more than five years	**124,280**	124,280
More than five years	**31,070**	62,140
Future minimum guaranteed dividends	**186,420**	217,490
Less accrued interest expense	**89,196**	112,759
Future minimum guaranteed dividends – net	**97,224**	104,731
Less current portion	**9,194**	7,506
Noncurrent portion	**₱88,030**	₱97,225

17. **Equity**

a. Capital Stock

	2008	2007
Authorized - ₱1 par value		
Preferred shares - 1,000,000,000 shares		
Common shares - 16,000,000,000 shares		
Issued		
Common shares - 7,358,604,000 shares	**₱7,358,604**	₱7,358,604

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2008 and 2007.

On January 16, 2007, the BOD and stockholders representing at least two-thirds of the Company's outstanding capital stock approved the increase in the Company's authorized capital stock, subject to the approval of SEC, from ₱5,000,000, divided into 4,000,000,000 common and 1,000,000,000 preferred shares both with par value of ₱1 per share to ₱17,000,000 divided into 16,000,000,000 common and 1,000,000,000 preferred shares both with par value of ₱1 per share. Out of the increase in the authorized capital stock of ₱12,000,000, the amount of ₱3,000,000 was subscribed by AEV and of such subscription, the

amount of ₱2,889,320 was actually paid by AEV by way of assignment of its shares of stock in various power distribution companies (see Note 1). SEC approved the increase in the authorized capital stock on May 3, 2007.

b. Retained Earnings

On May 9, 2006, the BOD approved the declaration of a ₱0.11 per share (₱218 million) cash dividends out of the Company's retained earnings which was paid on June 15, 2007 to stockholders of record as of May 12, 2007.

The accounting of the Exchange under the pooling-of-interests method has increased the dividends recognized on the financial statements representing dividends declared by the new associates and subsidiaries and paid to AEV. Those dividends amounted to ₱678,070 in 2006.

On February 6, 2008, the BOD approved the declaration of cash dividends of ₱0.18 a share (₱1.32 billion) to all stockholders of record as of February 21, 2008. The cash dividends were subsequently paid on March 3, 2008.

18. Revenue

The Uniform Rate Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements (see Note 31e).

19. Costs of Generated Power

	2008	2007	2006
Gasoline and oil	**₱1,615,971**	₱1,000,405	₱–
Repairs and maintenance	**162,353**	71,084	52,284
Ancillary charges	**46,366**	40,194	–
Personnel (Note 22)	**45,318**	38,364	46,039
Back-up power	**25,277**	17,105	–
Wheeling expenses	**6,220**	4,695	6,437
Rent	**2,060**	2,152	2,382
Others	**524**	592	607
	₱1,904,089	₱1,174,591	₱107,749

20. General and Administrative Expenses

	2008	2007	2006
Personnel (see Note 22)	**₱262,202**	₱229,491	₱156,854
Outside services	**146,728**	136,441	76,931
Professional fees	**148,964**	112,579	40,117
Taxes and licenses	**99,093**	95,138	61,674
Provision for doubtful accounts and write-off - net of reversal	**67,398**	5,527	9,252
Transportation and travel	**59,921**	39,349	32,284
Repairs and maintenance	**55,564**	51,793	44,804
Research and development	**29,723**	18,096	4,203
Communications	**14,701**	13,490	11,558
Insurance	**7,322**	8,423	5,373
Training	**5,053**	8,074	4,395
Rent	**4,931**	2,578	2,224
Guard services	**4,648**	4,867	4,561
Advertisements	**3,919**	3,694	3,214
Supervision and regulatory fees	**3,623**	21,609	1,835
Entertainment, amusement and recreation	**3,559**	1,568	997
Gasoline and oil	**2,736**	1,600	1,554
Freight and handling	**1,831**	2,445	1,806
Donations	**1,730**	9,026	27,975
Management and directors' fees	**–**	–	409,207
Others	**178,928**	134,662	16,488
	₱1,102,574	₱900,450	₱917,306

21. Operations and Maintenance Expenses

	2008	2007	2006
Personnel	**₱204,441**	₱176,693	₱152,040
Fuel and lube oil	**77,040**	43,177	25,336
Materials and supplies	**74,366**	126,490	–
Outside services	**32,403**	26,615	–
Repairs and maintenance	**12,986**	21,792	25,580
Transportation and travel	**11,681**	12,812	9,101
Insurance	**4,391**	6,436	–
Taxes and licenses	**136**	766	151
Others	**27,465**	38,927	11,325
	₱444,909	₱453,708	₱223,533

22. Pension Benefit Plans

The Group has funded, noncontributory defined benefit plans administered by the funds' Trustees covering all regular and full time employees.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets.

Net benefit expense (recognized as part of costs of generated power, operations and maintenance and general and administrative)

	2008	2007	2006
Current service cost	**₱14,829**	₱19,326	₱7,103
Interest cost on benefit obligation	**17,237**	15,154	17,194
Past service cost	**230**	–	–
Net actuarial (gain) loss recognized	**(608)**	(10,246)	466
Expected return on plan assets	**(17,676)**	(18,783)	(10,439)
Net pension asset in excess of limit	**8,193**	–	–
	₱22,205	₱5,451	₱14,324

The overall expected return on plan assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

Pension assets

	2008	2007
Fair value of plan assets	**₱112,484**	₱133,057
Defined benefit obligation	**(22,350)**	(74,462)
Over funded defined benefit obligation	**90,134**	58,595
Unrecognized past service cost	**2,304**	2,535
Unrecognized net actuarial losses (gains)	**(62,539)**	(32,378)
Limit on defined benefit asset	**(20,179)**	–
	₱9,720	₱28,752

DLPC, SEZC, AESI and CPPC are in net pension asset position as of December 31, 2008 and including CLPC as of December 31, 2007. The rest of the companies in the Group are in pension liability position.

Pension liabilities

	2008	2007
Defined benefit obligation	**₱101,757**	₱117,315
Fair value of plan assets	**(92,568)**	(95,552)
Unrecognized actuarial losses (gains)	**5,278**	(6,396)
	₱14,467	₱15,367

Changes in the present value of the defined benefit obligation are as follows:

	2008	2007
Opening defined benefit obligation	**₱191,777**	₱179,652
Interest cost	**17,237**	15,154
Current service cost	**14,829**	19,326
Employee transfers	**458**	49,604
Fund transfers to affiliates	**(3,037)**	(514)
Actuarial gains	**(59,085)**	(56,496)
Benefits paid	**(38,072)**	(31,912)
Acquired subsidiary	**–**	13,695
Past service cost	**–**	3,268
Closing defined benefit obligation	**₱124,107**	₱191,777

Changes in the fair value of plan assets are as follows:

	2008	2007
Opening fair value of assets	**₱228,609**	₱153,019
Contribution by employer	**16,080**	70,510
Expected return on plan assets	**17,676**	18,784
Acquired subsidiary	**–**	24,469
Employee transfers	**–**	514
Fund transfer to affiliates	**(2,580)**	(514)
Actuarial gains (losses)	**(16,661)**	(6,261)
Benefits paid	**(38,072)**	(31,912)
Closing fair value of plan assets	**₱205,052**	₱228,609

Actual return on plan assets is ₱1,553 in 2008, ₱12,522 in 2007 and ₱44,958 in 2006. The Group expects to contribute ₱4,597 on their retirement fund in 2009.

The principal assumptions used in determining the pension obligations for the Group's plans are shown below:

	2008	2007
Discount rate	**7% - 12%**	8% - 14%
Expected rate of return on assets	**8% - 11%**	9% - 11%
Future salary increase	**8% - 9%**	8% - 9%

As of December 31, 2008, the discount rate has increased to 32% - 37%.

Amounts for the current and previous four periods are as follows:

	2008	2007	2006	2005	2004
Defined benefit obligation	**₱124,107**	₱191,777	₱179,652	₱122,604	₱109,304
Plan assets	**205,052**	228,609	153,019	115,709	105,664
Surplus (deficit)	**80,945**	36,832	(26,633)	(6,895)	(3,640)
Experience adjustment on plan liability	**(8,408)**	(7,143)	(56,688)	(338)	
Experience adjustment on pension asset	**(16,123)**	(6,231)	18,381	594	

The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	2008	2007	2007
Temporary investment	**56%**	54%	64%
Marketable securities	**19%**	22%	28%
Others	**25%**	24%	9%

23. Income Tax

The provision for income tax account consists of:

	2008	2007	2006
Current	**₱577,071**	₱594,063	₱405,835
Deferred	**41,313**	40,270	(759)
	₱618,384	₱634,333	₱405,076

A reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

	2008	2007	2006
Statutory income tax rate	**35.00%**	35.00%	35.00%
Tax effects of:			
Nontaxable share in net earnings of associates	**(19.85)**	(19.99)	(16.39)
Interest income subjected to final tax at lower rates - net	**(1.88)**	(1.09)	(0.07)
Others	**(1.62)**	(1.00)	(0.91)
	11.65%	12.92%	17.63%

Deferred income tax at December 31 relates to the following:

	2008	2007
Deferred income tax assets:		
Net operating loss carryover (NOLCO)	**₱15,260**	₱–
Pension cost liability	**4,244**	5,024
Unrealized foreign exchange losses	**40,182**	52,191
Allowances for doubtful accounts and probable losses	**1,041**	841
Unamortized preoperating expenses and software and project development cost	**–**	984
Unamortized past service cost	**4,663**	4,995
MCIT	**1,507**	34
Accrued retirement benefits	**(321)**	(3,392)
Net deferred income tax assets	**₱66,576**	₱60,677

	2008	2007
Deferred income tax liabilities:		
Unamortized customs duties and taxes Capitalized	**₱15,859**	₱15,699
Unrealized foreign exchange gains (losses)	**39,394**	15,052
Capitalized interest expense	**2,726**	–
Pension asset	**1,393**	5,992
Unamortized streetlight donations capitalized	**3,648**	3,485
Unamortized past service cost	**1,686**	1,233
Allowances for doubtful accounts and probable losses	**(3,039)**	–
MCIT	**(2,643)**	(2,643)
Net deferred income tax liabilities	**₱59,024**	₱38,818

In computing for deferred income tax assets and liabilities in 2007, the rates used were 35% and 30%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled.

At December 31, 2008 and 2007, deferred income tax liabilities have not been recognized on the undistributed earnings of associates since such amounts are not taxable. Such undistributed earnings amounted to ₱2,979,930 and ₱771,686 as of December 31, 2008 and 2007, respectively (see Note 8).
There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

24. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

		2008	2007 (As restated, see Note 3)	2006 (As restated, see Note 3)
a.	Net income attributable to equity holders of the parent	**₱4,333,613**	₱4,160,645	₱1,868,591
b.	Weighted average number of common shares issued and outstanding	**7,358,604,000**	6,279,302,154	5,000,000,000
c.	Earnings per common share (a/b)	**₱0.59**	₱0.66	₱0.37

There are no dilutive potential common shares as of December 31, 2008, 2007 and 2006.

25. Business Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The power generation segment is engaged in the generation and supply of power to the NPC and other customers. The power distribution segment is engaged in the distribution and sale of electricity to the end-users. The parent company and others include the operations of the Company and electricity-related services of the Group. The Group operates and generates revenue principally only in the Philippines (i.e., one geographical location). Thus, geographical segment information is not presented.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arms length transaction basis.

Segment assets do not include deferred tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

The Group's segment income in 2007 and 2006, and segment assets and liabilities in 2007 have been restated to reflect the effects of the adoption of new accounting standards.

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

2008

	Power Distribution	Power Generation	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE	₱9,227,696	₱2,984,778	₱328,696	(₱298,190)	₱12,242,980
External	9,227,696	2,880,719	134,565	–	12,242,980
Inter-segment	–	104,059	194,131	(298,190)	–
Total Revenue	₱9,227,696	₱2,984,778	₱328,696	(₱298,190)	₱12,242,980
Segment results	₱1,121,082	₱513,914	₱17,509	₱–	₱1,652,505
Unallocated corporate income (expenses)	338,121	(85,677)	124,248	–	376,692
INCOME FROM OPERATIONS	1,459,203	428,237	141,757	–	2,029,197
Interest expense	(89,198)	(91,234)	(242,166)	44,062	(378,536)
Interest income	15,550	149,810	486,242	(44,062)	607,540
Share in net earnings of associates	346,782	2,437,729	4,079,893	(4,079,893)	2,784,511
Provision for income tax	(401,848)	(101,011)	(115,525)	–	(618,384)
NET INCOME	₱1,330,489	₱2,823,531	₱4,350,201	(₱4,079,893)	₱4,424,328
OTHER INFORMATION					
ASSETS					
Investments in associates	₱2,281,307	₱17,352,127	₱21,123,160	(₱21,123,160)	₱19,633,434
Capital Expenditures	869,773	1,945,959	35,662	–	2,851,394
Segment Assets	₱7,388,753	₱25,484,606	₱39,284,087	(₱24,885,310)	₱47,272136
Segment Liabilities	₱4,029,890	₱8,262,870	₱9,050,953	(₱4,763,242)	₱16,580,472
Depreciation and amortization	₱324,726	₱179,349	₱7,079	₱–	₱511,154

2007 (as restated, see Note 3)

	Power Distribution	Power Generation	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱8,797,504	₱2,412,393	₱102,094	₱–	₱11,311,991
Inter-segment	–	86,446	233,405	(319,851)	–
Total Revenue	₱8,797,504	₱2,498,839	₱335,499	(₱319,851)	₱11,311,991
RESULTS					
Segment results	₱1,231,810	₱648,994	₱102,530	₱–	₱1,983,334
Unallocated corporate income (expenses)	302,633	(289,632)	(24,153)	–	(11,152)
INCOME FROM OPERATIONS	1,534,443	359,362	78,377	–	1,972,182
Interest expense	(78,005)	(86,251)	(33,246)	–	(197,502)
Interest income	13,106	13,386	304,421	–	330,913
Share in net earnings of associates	395,473	2,408,360	3,916,292	3,916,292	2,803,833
Provision for income tax	(468,484)	(78,599)	(87,250)	–	(634,333)
NET INCOME	₱1,396,533	₱2,616,258	₱4,178,594	(₱3,416,292)	₱4,275,093
OTHER INFORMATION					
ASSETS					
Investments in associates	₱2,345,051	₱12,325,613	₱21,007,971	(₱21,007,971)	₱14,670,664
Capital Expenditures	590,037	534,211	15,288	–	1,139,476
Segment Assets	₱7,134,882	₱17,065,568	₱31,873,772	(₱19,,897,992)	₱36,176,230
Segment Liabilities	₱2,993,470	₱621,955	₱5,079,703	₱120,979	₱8,816,107
Depreciation and amortization	₱291,187	₱193,553	₱7,402	₱–	₱492,142

2006 (as restated, see Note 3)

	Power Distribution	Power Generation	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱7,915,386	₱701,350	₱64,269	₱–	₱8,681,005
Inter-segment	–	80,942	–	(80,942)	–
Total Revenue	₱7,915,386	₱782,292	₱64,269	(₱80,942)	₱8,681,005
RESULTS					
Segment results	₱1,076,813	₱170,958	₱15,061	₱20,502	₱1,283,334
Unallocated corporate income (expenses)	109,740	5,517	13,448	(20,502)	108,203

(Forward)

	Power Distribution	Power Generation	Parent Company/ Others	Eliminations and Adjustments	Consolidated
INCOME FROM OPERATIONS	₱1,186,553	₱176,475	₱28,509	₱–	₱1,391,537
Interest expense	(101,742)	(120,481)	(424)	–	(222,647)
Interest income	41,769	2,801	8,426	–	52,996
Share in net earnings of associates	272,802	803,042	1,845,153	(1,845,153)	1,075,844
Provision for income tax	(375,487)	(16,484)	(13,105)	–	(405,076)
NET INCOME	₱1,023,895	₱845,353	₱1,868,559	(₱1,845,153)	₱1,892,654
OTHER INFORMATION					
Depreciation and amortization	₱331,700	₱122,270	₱6,125	₱–	₱460,095

26. Related Party Disclosures

The Group enters into transactions with its parent, associates and other related parties, principally consisting of:

a. Management and other service contracts of certain subsidiaries with ACO at fees based on agreed rates. Management and other service fees paid by the Group to ACO amounted to ₱40,727, ₱27,154 and ₱15,537 in 2008, 2007 and 2006, respectively.

b. Management agreement with AEV in 2006. AEV was the sole and general manager of DLPC, CLPC and HI for which the former was entitled to a fee based on agreed rates. In 2007, AEV transferred the management contract to the Company upon assignment of AEV of all its rights, title and interests in the shares of stock of DLPC, CLPC and HI to the Company. Management fees charged by AEV in 2006 amounted to ₱391,245.

c. Service contracts of certain subsidiaries and associates with AEV at fees based on agreed rates. Professional, legal and other service fees paid by the Group to AEV amounted to ₱362,607 in 2008, ₱366,565 in 2007 and ₱131,358 in 2006, respectively.

d. Management service agreement with the Company and Vivant Corporation (Vivant). The Company and Vivant are the general managers of CPPC for which they are entitled to a management fee based on agreed rates. Management fees charged to operations amounted to ₱12,000 in 2008 and in 2007.

e. The Company serves as a guarantor on loans obtained by HI from a local bank. The Company also obtained standby letters of credit to guarantee debts of certain subsidiaries and associates.

f. Energy fees billed by HI to SFELAPCO amounted to ₱17,339 in 2008 and ₱17,768 in 2007.

g. Energy fees billed by CPPC to VECO amounted to ₱2,346,027 in 2008 and ₱1,645,655 in 2007.

h. Aviation services rendered by AEV Aviation to the Group. Total expenses from associate amounted to ₱19,856 in 2008, ₱12,655 in 2007 and ₱10,692 in 2006. AEV Aviation is a subsidiary of AEV.

i. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) for a period of three years. Rental expense amounted to ₱32,239 in 2008, ₱28,190 in 2007 and ₱25,263 in 2006. CPDC is a subsidiary of AEV.

j. Technical and management services agreement. The Company provides services associated with the operations and maintenance of the electricity distribution system of SFELAPCO. Total technical and management service fee income amounted to ₱1,540 in 2007 and ₱1,300 in 2006.

k. Cash deposits with UBP and City Savings Bank, both associates of AEV (see Note 4).

l. Advances to/from related parties, both interest and noninterest-bearing, payable on demand. Interest-bearing advances are based on annual interest rates ranging from 3% to 10.4% in 2008, 5.13% to 8.25% in 2007 and 5.17% to 17% in 2006. Net interest income (expense) incurred on these advances amounted to ₱142.7 million in 2008, (₱29.9 million) in 2007 and (₱47.8 million) in 2006.

Significant outstanding account balances with related parties as of December 31, 2008 and 2007 are as follows:

	Amounts Owed by Related Parties		Amounts Owed to Related Parties	
	2008	2007	**2008**	2007
Ultimate Parent and Parent				
ACO	**₱–**	₱–	**₱10,124**	₱–
AEV		–	**4,844**	381,743
Associates				
CEDC	**1,468,977**	–	**–**	–
STEAG	**225,002**	–	**–**	–
SN Aboitiz Power – Magat, Inc.	**4,860**	4,860	**–**	–
MORE	**143,630**	182,675	**–**	–
SFELAPCO	**4,058**	–	**–**	–
EAUC	**–**	–	**1,100,253**	987,753
LHC	**–**	–	**–**	258,000
Other Related Parties				
Aboitiz One	**321,000**		**–**	–
Pilmico Foods Corporation	**40,200**	–	**–**	–
Pilmico Animal Nutrition Corporation	**35,400**	–	**–**	–
Vivant Energy Corporation		–	**466,847**	(163,496)

Compensation of BOD and key management personnel follows:

	2008	2007	2006
Short-term benefits	**₱70,642**	₱25,788	₱25,972
Post-employment benefits	**3,634**	2,863	675
	₱74,276	₱28,651	₱26,647

27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, amounts owed by parent company and related parties, accounts payable and accrued expenses and customers' deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and credit risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments.

Liquidity risk. Liquidity risk is the potential of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations. The Group, in general, matches the appropriate long-term funding instruments with the general nature of its equity investments.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long term borrowings should mature in any twelve-month period. 0.31% of the Group's debt will mature in less than one year at December 31, 2008 (2007: 1.20%). For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The following table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments:

As of December 31, 2008

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Trade and other payables	**₱1,578,211**	**₱1,546,150**	₱–	₱1,546,150	₱–	₱–
Due to related parties	**1,567,100**	**1,567,100**	980,407	586,693		
Customers' deposits	**1,571,092**	**1,571,092**	–	89,212	9,759	1,472,121
Bank loans	**4,798,120**	**4,815,073**	–	4,815,073		
Payable to preferred shareholders of subsidiary	**97,224**	**186,420**	–	31,070	124,280	31,070
Long-term obligation on power distribution system	**291,816**	**760,000**	–	40,000	200,000	520,000
Long-term debt	**6,521,997**	**9,532,211**	–	556,230	6,964,069	2,011,912
Total	**₱16,425,560**	**₱19,978,046**	₱980,407	₱7,664,428	₱7,298,108	₱4,035,103

As of December 31, 2007

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Trade and other payables	₱1,605,107	₱1,575,629	₱–	₱1,575,629	₱–	₱–
Due to related parties	1,089,007	1,089,007	₱824,257	264,750	–	–
Customers' deposits	1,373,932	1,403,973	–	87,908	9,759	1,306,306
Bank loans	3,343,680	3,352,974	–	3,352,974	–	
Payable to preferred shareholders of subsidiary	104,731	217,490	–	31,070	124,280	62,140
Long-term obligation on power distribution system	295,689	800,000	–	40,000	200,000	560,000
Long-term debt	837,886	1,018,202	–	88,200	882,482	47,520
Total	₱8,650,032	9,457,275	₱824,257	₱ 5,440,531	₱1,216,521	₱1,975,966

Interest rate risk. The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2008, 11% of the Group's long-term debt had floating interest rates ranging from 6.29% to 9.47%, and 89% are with fixed rates ranging from 8.26% to 10.02%. As of December 31, 2007, 80% of the Group's long-term debt had floating interest rates ranging from 6.21% to 6.89%, and 20% are with fixed rates ranging from 8.78% to 9.50%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

As of December 31, 2008

	<1 year	1-5 years	>5 years	**Total**
Floating rate - long-term debt	₱1,000	₱646,000	₱–	**₱647,000**
Fixed rate - long-term debt	15,145	3,886,740	1,973,112	**5,874,997**
Floating rate - payable to preferred shareholder of a subsidiary	9,194	88,030	–	**97,224**
	₱25,339	₱4,620,770	₱1,973,112	**₱6,619,221**

As of December 31, 2007

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱1,000	₱647,000	₱–	₱648,000
Fixed rate - long-term debt	19,371	123,333	47,182	189,886
Floating rate - payable to preferred shareholder of a subsidiary	7,506	97,225	–	104,731
	₱27,877	₱867,558	₱47,182	₱942,617

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings).

	Increase (decrease) in basis points	Effect on income before tax
December 2008	**100**	**(₱6,470)**
	(50)	**3,235**
December 2007	100	(6,480)
	(50)	3,240
December 2006	100	(6,490)
	(50)	3,245

The sources of interest expense recognized during the period are as follows:

	2008	2007	2006
Bank loans and long-term debt (see Notes 12 and 13)	**₱331,079**	₱123,444	₱118,814
Customers' deposits (see Note 14)	**5,462**	3,626	12,402
Long-term obligation on power distribution system	**36,128**	36,558	36,940
Advances from related parties (see Note 25)	**5,867**	33,874	54,491
	₱378,536	₱197,502	₱222,647

Foreign exchange risk. The foreign exchange risk of the Group pertains significantly to its foreign currency denominated borrowings. To mitigate the risk of incurring foreign exchanges losses, foreign currency holdings, are matched against the potential need for foreign currency in financing equity investments and new projects. As of December 31, 2008 and December 31, 2007, foreign currency denominated borrowings account for 34% and 78%, respectively, of total consolidated borrowings.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2008 and 2007, translated in Philippine peso.

	December 31, 2008		December 31, 2007	
	US Dollar	**Philippine peso equivalent**	US Dollar	Philippine peso equivalent
Current financial asset				
Cash	**US$61,336**	**₱2,914,665**	US$47,423	₱1,957,604
Current financial liability				
Bank loans	**81,000**	**3,849,120**	81,000	3,343,680
	(US$19,664)	**(₱934,455)**	(US$33,577)	(₱1,386,076)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's profit before tax as of December 31, 2008 and December 31, 2007.

	Increase/ (decrease) in US dollar	Effect on profit before tax
December 31, 2008		
US dollar denominated accounts	**5%**	**(₱46,723)**
US dollar denominated accounts	**(5%)**	**46,723**
December 31, 2007		
US dollar denominated accounts	5%	(₱69,304)
US dollar denominated accounts	(5%)	₱69,304

The increase in dollar rate represents the depreciation of the Philippine peso while the decrease in dollar rate represents appreciation of the Philippine peso.

There is no other impact on the Group's equity other those already affecting the consolidated statement of income.

Credit risk. For its cash investments, AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments (see Note 28). With respect to cash and AFS investments, the risk is mitigated by the short-term and or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has no significant concentration risk to counterparty or group of counterparties.

Credit risk concentration of the Group according to the customer category is summarized in the following table:

	2008	2007
Power distribution		
Residential	**₱190,543**	₱218,335
Commercial	**95,795**	162,912
Industrial	**278,214**	185,166
City street lighting	**13,717**	15,106
Power generation		
Power distribution utilities/off-takers	**203,774**	282,612
	₱782,043	₱864,131

The credit quality per class of financial assets that were neither past due nor impaired is as follows:

December 31, 2008

	Neither past due nor impaired				
	High Grade	Standard	Sub- standard	Past due or individually impaired	Total
Cash and cash equivalents					
Cash on hand and in banks	₱622,301	₱–	₱–	₱–	₱622,301
Short-term investments	14,293,083	–	–	–	14,293,083
	14,915,384	–	–	–	14,915,384
Trade receivables					
Residential	38,472	38,494	61,428	52,149	190,543
Commercial	15,260	38,996	21,968	19,571	95,795
Industrial	214,190	15,148	26,228	22,648	278,214
City street lighting	4,504	3,626	5,375	212	13,717
Power distribution utilities/off-takers	196,336	–	–	7,438	203,774
	468,762	96,264	114,999	102,018	782,043
Advances to suppliers, officers and employees	382,054	–	–	5,095	387,149
Advances to related parties	396,600	–	–	–	396,600
Other receivables	370,851	–	–	54,431	452,282
AFS	3,744	–	–	–	3,744
Total	₱16,537,395	₱96,264	₱114,999	₱161,544	₱16,910,202

December 31, 2007

	Neither past due nor impaired				
	High Grade	Standard	Sub- standard	Past due or individually impaired	Total
Cash and cash equivalents					
Cash on hand and in banks	₱426,051	₱–	₱–	₱–	₱426,051
Short-term investments	12,861,760	–	–	–	12,861,760
	13,287,811	–	–	–	13,287,811
Trade receivables					
Residential	68,245	₱8,011	₱38,390	₱103,689	218,335
Commercial	79,868	8,544	21,750	52,750	162,912
Industrial	169,989	173	606	14,398	185,166
City street lighting	7,095	1,086	4,614	2,311	15,106
Power distribution utilities/off-takers	267,475	–	–	15,137	282,612
	592,672	17,814	65,360	188,285	864,131
Advances to suppliers, officers and employees	602,787	245	423	782	604,237
Other receivables	162,788	1,336	–	36,188	200,312
AFS	8,999	–	–	–	8,999
Total	₱14,655,057	₱19,395	₱65,783	₱225,255	₱14,965,490

High grade pertain to receivables from customers with good favorable credit standing. Receivables from customers that slide beyond the credit terms but pay a week after being past due are classified under standard. Sub-standard are accounts with payment habits extend beyond the approved credit terms because their funds are not sufficient to conduct their operations.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

The table below shows the Group's aging analysis of past due but not impaired financial assets:

December 31, 2008

			Past due but not impaired			
	Total	Neither past due nor impaired	Less than 30 days	31 days to 60 days	Over 60 days	Impaired
Cash and cash equivalents						
Cash on hand and in banks	₱622,301	₱622,301	₱–	₱–	₱–	₱–
Short-term investments	14,293,083	14,293,083	–	–	–	–
	14,915,384	14,915,384	–	–	–	–
Trade receivables						
Residential	190,543	138,394	30,491	2,458	19,200	–
Commercial	95,795	76,224	10,800	3,133	5,638	–
Industrial	278,214	255,566	10,580	3,041	9,027	–
City street lighting	13,717	13,505	130	4	78	–
Others	203,774	196,336	7,400	30	8	–
	782,043	680,025	59,401	8,666	33,951	–
Advances to suppliers, officers and employees	389,349	382,054	280	3,715	1,100	–
Advances to related parties	396,600	396,600	–	–	–	–
Other receivables	425,282	370,851	18,310	7,233	28,888	–
AFS investments	3,744	3,744	–	–	–	–
Total	₱16,910,202	₱16,748,658	₱77,991	₱19,614	₱63,939	₱–

December 31, 2007

			Past due but not impaired			
	Total	Neither past due nor impaired	Less than 30 days	31 days to 60 days	Over 60 days	Impaired
Cash and cash equivalents						
Cash on hand and in banks	₱426,051	₱426,051	₱–	₱–	₱–	₱–
Short-term investments	12,861,760	12,861,760	–	–	–	–
	13,287,811	13,287,811	–	–	–	–
Trade receivables						
Residential	218,335	114,646	46,739	10,998	45,952	–
Commercial	162,912	110,162	18,337	4,270	30,143	–
Industrial	185,166	170,768	6,865	4,259	3,274	–
City street lighting	15,106	12,795	687	232	1,392	–
Others	282,612	267,475	6,817	–	5,917	2,403
	864,131	675,846	79,445	19,759	86,678	2,403

	Total	Neither past due nor impaired	Past due but not impaired: Less than 30 days	Past due but not impaired: 31 days to 60 days	Past due but not impaired: Over 60 days	Impaired
Advances to suppliers, officers and employees	604,237	603,455	245	45	492	–
Other receivables	200,312	164,124	3,675	25,449	1,907	5,157
AFS investments	8,999	8,999	–	–	–	–
Total	₱14,965,490	₱14,740,235	₱83,365	₱45,253	₱89,077	₱7,560

Capital management. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2008, 2007 and 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 40% or below at the consolidated level. Depending on the quality of cash flows, associates and subsidiaries that can secure limited recourse project financing can maintain a gearing ratio of 70%. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt and payable to preferred shareholders of a subsidiary) less cash and short-term deposits and temporary advances to related parties.

Gearing ratios of the Group as of December 31, 2008 and 2007 are as follows:

	2008	2007 (As restated, See Note 3)
Bank loans	**₱4,798,120**	₱3,343,680
Long-term debt	**6,619,221**	942,617
Cash and cash equivalents	**(14,915,384)**	(13,287,811)
Temporary advances from (to) related parties	**(396,600)**	1,089,007
Net debt (a)	**(3,894,643)**	(7,912,507)
Equity	**30,691,663**	27,360,123
Equity and net debt (b)	**₱26,797,020**	₱19,447,616
Gearing ratio (a/b)	**(14.53%)**	(40.69%)

28. Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements at other than fair values (amounts in millions).

	2008		2007	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash on hand and in banks	**₱622**	**₱622**	₱426	₱426
Short-term investments	**14,293**	**14,293**	12,862	12,862
	14,915	**14,915**	13,288	13,288
Trade and other receivables				
Trade receivables	**782**	**782**	856	856
Due from related parties	**397**	**397**		
Other receivables	**812**	**812**	804	804
	1,991	**1,991**	1,660	1,660
AFS financial assets	**4**	**4**	9	9
	₱16,910	**₱16,910**	₱14,957	₱14,957
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	**₱4,798**	**₱4,798**	3,344	₱3,344
Long-term debt				
Floating - long-term debt	**647**	**647**	648	648
Fixed rate - long-term debt	**5,875**	**5,917**	190	213
Floating rate - payable to preferred shareholder of a subsidiary	**97**	**97**	105	105
	6,619	**6,661**	943	966
Customers' deposits				
Bill deposits	**305**	**305**	259	259
Transformers, lines and poles	**1,266**	**1,266**	1,115	1,115
	1,571	**1,571**	1,374	1,374
Long-term obligation on power distribution system	**292**	**367**	293	414
Trade and other payables				
Related parties	**1,567**	**1,567**	1,089	1,089
Trade payables	**986**	**986**	1,164	1,164
Others	**592**	**592**	441	441
	3,145	**3,145**	2,694	2,694
	₱16,425	**₱16,542**	₱8,648	₱8,792

Fair Value of Financial Instruments

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with an active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables and accounts payable and accrued expenses. The carrying amounts of cash and cash equivalents, trade and other receivables and accounts payable and accrued expenses approximate fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings. The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using discount rates ranging from 5.67% to 5.99% in 2007 and 7.34% to 9.15% in 2008.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is frequent (i.e., three-month repricing), the carrying value approximates the fair value.

Long-term obligation on power distribution system. The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 5.67% to 8.34% in 2007 and 6.22% to 10.77% in 2008.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

AFS investments. The fair values of AFS assets are based on quoted market prices. The publicly-traded equity securities which are owned by the Group are all actively traded in the stock market. The fair values of unlisted AFS assets cannot be reliably measured and are accordingly measured at cost.

29. **Registration with the Department of Energy (DOE)**

In accordance with its registration with the Department of Energy (DOE) under Republic Act (RA) 7156 known as "Mini Hydro Electric Power Incentives Act" as mini hydro electric power developer HI is entitled to certain incentives among which are the special privilege tax at the rate of 2% on power sales, tax and duty free importation of machinery, equipment and materials, tax credit on domestic capital equipment and income tax holiday. Income tax holiday, tax and duty free importation and tax credit on domestic capital equipment on all mini-hydroelectric power plants expired in 2000, except for the four (4) power plants located in Mintal, Tugbok, Davao City, acquired from PSALM, which were transferred on January 18, 2005 and started commercial operations on January 19, 2005. Income tax holiday on the four (4) plants started on September 28, 2005. With the effectivity of R.A. 9136 known as "Electric Power Industry Reforms Act of 2001" sales of generated power by generation companies shall be value added tax zero-rated. HI has updated its registration with the Bureau of Internal Revenue from VAT Exempt to VAT Zero Rated effective April 10, 2003.

30. **Agreements**

a. DLPC, CLPC and SEZC entered into contracts with NPC for the purchase of electricity. Pursuant to Section 8 of RA No. 9136, National Transmission Corporation (Transco) was created and assumed the electrical transmission functions of the NPC. The material terms of the contract are as follows:

	Term of Agreement with NPC	Contract Energy (MWH year)
DLPC	Ten years; expiring in December 2015	1,238,475
CLPC	Ten years; expiring in December 2015	116,906
SEZC	Two-and-a-half years; renewed in March 2008 expiring in March 2011	90,000

Total power purchases from the NPC and Transco, net of discounts, amounted to ₱5.7 billion in 2008, ₱5.6 billion in 2007 and ₱5.3 billion in 2006. The outstanding payable to the NPC and Transco on purchased power, presented as part of the "Trade and other payable" account in the consolidated balance sheets amounted to ₱442.8 million and ₱464.2 million as of December 31, 2008 and 2007, respectively (see Note 10).

b. Certain subsidiaries of PHC have Electric Power Supply Agreements with various corporations to supply or sell power and energy produced by the mini hydroelectric power plants. The maturity of these agreements vary from one taker to another with the nearest to mature on calendar year 2007 and farthest on 2018. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by both parties.

c. HI entered into a memorandum of agreement with the City of Baguio Water District (BWD) for the operation and maintenance of the Asin Plants located in Asin, Tuba, Benguet which ended in August 2006.

d. HI has an Operation and Maintenance Agreement with LHC to provide administration services and operate the 70 megawatt hydro electric power plant of LHC located in Alilem, Ilocos Sur starting on October 27, 2000 until December 31, 2006 unless extended by mutual written agreement between parties.

e. On April 23, 2004, HI was awarded by the PSALM, a government owned and controlled corporation, for the acquisition of four (4) mini hydroelectric plants in Mintal, Tubbok, Davao City at a purchase price amounting to US$1,318,700. It likewise entered into a Land Lease Agreement with PSALM for the lease of the land where the purchased assets are situated. The term is for a period of twenty (20) years. The certificate of closing was issued on January 18, 2005 and commercial operations of the said plants started in January 19, 2005.

f. On February 7, 1997, VECO entered into a Power Purchase Contract (PPA) for the purchase of electric energy from CPPC effective for a period of 15 years from the commercial operations of the latter. Among the salient features of the contract is that the electricity price shall not exceed 98% of the effective NPC billing rate to VECO based on contracted demand and energy. VECO shall also be entitled to a prompt payment discount equal to 3% of any amount paid to CPPC on or before the 15th day of the calendar month following the preceding billing period.

   On September 1, 2006, a Supplement to the 1997 PPA was executed by VECO and CPPC. Some of the salient provisions of the Supplement included the removal of the prompt payment discount, removal of the minimum off-take, and a pricing arrangement that changed CPPC's billing to VECO from an energy based, NPC pegged rate to Demand-Energy Pricing Scheme. This in effect allows CPPC to bill capacity-based fees based on CPPC's guaranteed contractual capacity. The Energy Pricing of this Supplement allows CPPC to pass on risks related to Fuel prices. While waiting for the ERC approval on the Supplement to the 1997 PPA, VECO filed a motion to extend its cash cost arrangement with CPPC which was approved by the ERC in the latter's decision dated August 10, 2007. On December 28, 2007, the ERC approved the Supplement to the 1997 PPA, which was implemented on the billing period ending January 26, 2008, the first billing cycle immediately after the approval of the ERC.

   Total power purchased from CPPC amounted to ₱2.3 billion in 2008 and ₱1.6 billion in 2007.

g. On May 15, 2003, the SBMA, AEV and DLPC entered into a DMSA for the privatization of the SBMA PDS on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures, and machineries in the Subic Bay Freeport Zone (SBFZ).

   Under the terms of the DMSA, SEZC was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA.

In compliance with the terms of the DMSA, the SBMA shall turn over to SEZC full possession of the Project and any and all improvements, spare parts, inventories, vehicles, works and structures constructed, improved and introduced by the SBMA in the Project and land, roads and any land rights of any description including, without any limitations, easements, access, rights-of-way, leases, licenses and covenants belonging to the SBMA or otherwise appertaining to the Project, or to be acquired by or granted to SEZC by the SBMA or any relevant Governmental Instrumentalities for purposes of implementing the Project on, through, above or below the ground on which any part of the Project is located, maintained and managed, including, without limitation to, arrangements for the disposal of waste materials. The SBMA shall also turnover all records, files and/or contracts pertinent to the PDS. The SBMA shall remain the owner of the Project including all its assets and improvements.

The DMSA shall be effective for a 25-year period commencing on the turnover date and consisting of two phases: (a) the 5-year rehabilitation period and (b) the 20-year operation, management and maintenance period. Total estimated rehabilitation costs committed by SEZC under the DMSA amounted to ₱368.6 million.

SEZC is subject to the rate making regulations and regulatory policies of the ERC. The DMSA provides that there will be no change in the basic power supply and power distribution rates for the first 5 years from the turnover date. For and in consideration of the services and expenditures of SEZC for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZC shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittance may be reduced by the outstanding power receivables from the SBMA, including streetlights power consumption and maintenance, for the immediately preceding year.

h. In February 2007, PHC, in consortium with subsidiaries, HI, HTI and HSI successfully bid for an agreement to supply DLPC a total of 400 million kWh of new capacity per year for a 12-year period beginning 2009. The delivery of the contracted energy under the agreement is in two phases: Phase I Supply, whereby 200 million kWh per year of net Expected Energy will be delivered, has a target completion date of August 1, 2009; and Phase II Supply, whereby the additional 200 million kWh per year of Net Expected Energy will be delivered, has a target completion date of August 1, 2010. Net Expected Energy refers to the quantity of electricity generated by the respective projects of the parties of the consortium, net of electricity used by the project, site usage, and step up transformer and transmission losses up to the delivery per meter points, which points are to be agreed upon by the parties. The bid price of the contracted energy is ₱4.0856/kWh delivered, subject to adjustment based on changes to the Philippine consumer price index.

   In connection with the Sibulan project, HSI, a subsidiary, entered into agreements with various contractors and suppliers. Major agreements entered into as of December 31, 2008 included those for the construction of civil works and electro-mechanical works and project management. Total purchase commitments entered into by the HSI from its contracts as of December 31, 2008 amounted to ₱2,674,787 and US$22,789 of which ₱534,951 and $5,637 had been paid in 2008.

31. **Other Matters**

a. DLPC Case

On December 7, 1990, certain customers of DLPC filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the Supreme Court's (SC) decision reducing the sound appraisal value of DLPC's properties, DLPC exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

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

The SC in its decision dated November 30, 2007 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

Claim for refund amounted to ₱4.08 million. No accrual was made as the ultimate amount and timing of payment can not be determined as of March 31, 2009. As of March 31, 2009, the ERC has not issued any order to refund the claim.

b. VECO

In connection with the petition for review filed by NPC assailing the decision and resolution of CA in CA-GR SP No. 50782 ERB Case No. 95-390 (Unlawful Collection of Penalties), the SC rendered a decision on April 7, 2006 denying the petition and affirming the assailed decision and resolution, where the same has, on August 28, 2006 became final and executory.

c. Impact of the Generation Rate Adjustment Mechanism (GRAM) case of Manila Electric Company, Inc. (Meralco)

The ERC promulgated an Order dated February 24, 2003 in ERC Case No. 2003-44 adopting the Implementing Rules for the Recovery of Fuel and Independent Power Producer Costs or GRAM. The GRAM Implementing Rules provide, among others, that before any generation cost is passed on to consumers by the distribution utilities, a petition must be filed at the ERC for approval. Meralco filed its application docketed as ERC Case No. 2004-112 for approval of actual generation costs for the period November 2003 to January 2004. In the Order dated June 2, 2004, the ERC approved the adjustment of Meralco's Generation Charge in accordance with the GRAM Implementing Rules.

The National Association of Electricity Consumers for Reforms (NASECORE) filed a Petition with the SC questioning the approval. In a decision promulgated on February 2, 2006, the SC declared as void the ERC Order dated June 2, 2004 on the ground that the application and the GRAM Implementing Rules failed to satisfy the requirements on publication. Both the ERC and Meralco filed their respective motions for reconsideration of the SC decision. However, through a resolution promulgated last August 16, 2006, the resolution for reconsideration filed by the ERC and Meralco were denied with finality by the SC. Meralco was thereby directed to refund the affected customers.

The ERC has approved the GRAM applications of DLPC after compliance to the legal requirements. DLPC, however, believes that the decision should not have a material impact to DLPC since the above SC decision did not order the refund of the collections under the GRAM. In addition, generation costs for the period covered by the GRAM have all been confirmed for recovery from customers. If recovery is not allowed through the GRAM, it will be through some other methods that the ERC may allow.

d. LHC Arbitration

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

In 2000 and 2001, due to the delay in the completion of the Power Station, LHC withdrew the Security. In November 2000, the contractor and LHC elevated their claims and counterclaims to an Arbitration Tribunal operating under the Rules of International Chamber of Commerce sitting in Australia (ICC International Australian Case No. 11264/TE/MW). The Arbitration Tribunal delivered the final award on August 9, 2005.

LHC was successful in certain claims concerning the design and construction of the lined and unlined tunnel. However, the Arbitration Tribunal also found that the contractor is entitled to certain money claims and refund of the liquidating damages that LHC has drawn from the Security.

LHC has recognized provisions for arbitration for the full financial effects of the final award delivered by the Arbitration Tribunal for the claims and counterclaims filed by the contractor and LHC for the construction of the Power Station.

In November 2006, the CA granted LHC's petition for permanent injunction against the enforcement of the Final Award on the ground of, among others, forum shopping by the contractor. Furthermore, the CA declared the Final Award null and void due to being contrary to Philippine public policy. The contractor has filed a motion with the SC asking for until January 19, 2007 to appeal the CA's decision. On January 19, 2007, the contractor filed its Petition for Review with the SC appealing the decision of the appellate court. After and exchange of pleadings by the parties, the SC directed them to submit their respective closing memoranda, LHC submitted its memorandum on September 5, 2007 and the contractor submitted its memorandum on or about October 11, 2007. As of March 26, 2008, the SC has not acted on the contractor's petition.

LHC believes that the accounting entries made for the full financial effects of US$24.5 million in 2006 of the final award do not reflect its admission of any obligation under the award and that the ultimate amounts of liabilities to be paid or settled, if any, depend upon the final outcome of other court cases that would affect enforcement of said final award.

In April 2008, LHC entered into a Settlement Deed (the Settlement) with Transfield Philippines, Inc. (TPI) for the purpose of settling all claims and disputes related to the Turnkey Contract, including the Final Award. The Settlement required the payment by LHC as a partial return of the securities posted by TPI . As a result of the Settlement, all related cases were dismissed following the parties' Joint Motion to Dismiss filed with relevant courts.

e. EPIRA of 2001 RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. RA No. 9136 provides for the privatization of NPC and the restructuring of the electric power industry. The IRR were approved by the Joint Congressional Power Commission on February 27, 2002. RA No. 9136 and the IRR impact the industry as a whole and the Company in particular. Other provisions of RA No. 9136 and the IRR are: (a) distribution utilities, such as the Company, will provide open and nondiscriminatory access to its distribution systems within three years from the effectivity of the Act, subject to certain conditions precedent; (b) distributors shall be allowed to recover stranded contract costs, subject to review and verification by the ERC for fairness and reasonableness; (c) NPC and distributors shall have filed their proposed unbundled charges within six months from the Act's effectivity; (d) distributors shall file a Business Separation Unbundling Plan (BSUP) with the ERC by December 26, 2002; (e) residential users shall get a ₱0.30 per kwh reduction in power rates to be provided by NPC and passed on by distributors starting August 2001; (f) the power to grant electric distribution franchises shall be vested solely in Congress, thereby repealing or amending Section 43 of Presidential Decree 269 (The National Electrification Decree); (g) NPC shall segregate its subtransmission assets for disposal to qualified distributors within two years from the effectivity of the Act; (h) NPC shall file with the ERC within six months from the effectivity of the Act the TSCs negotiated with distributors; and (i) distribution companies may engage in related business, provided up to 50% of the income from the related business shall be used to lower wheeling charges. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

Following the enactment of EPIRA in June 2001, the implementation of its various provisions continued in 2005.

Distribution Wheeling Rate Guidelines. In accordance with the authority given to the ERC by Sec. 43 of EPIRA to "adopt alternative forms of internationally-accepted rate-setting methodology", the ERC approved the Distribution Wheeling Rate Guidelines (DWRG) last December 20, 2004. The DWRG took effect on January 29, 2005.

DWRG embodies a new rate-fixing scheme known as the performance-based rate (PBR) setting methodology. Under the current RORB methodology, utility tariffs are based on historical costs plus a reasonable rate of return. On the other hand, the PBR scheme sets tariffs according to forecasts of performance and capital and operating expenditures. The DWRG also employs a penalty/reward mechanism depending on a utility's actual performance.

On April 11, 2006, the ERC issued Resolution No. 16, Series of 2006 "Adopting a Policy that Entry to the PBR by Private Utilities under the DWRG Be Made Mandatory".

On July 26, 2006 the DWRG was updated and re-issued as the "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Entering Performance Based Regulation (First Entry Point)" (RDWR), under Resolution No. 39, Series of 2006 dated July 26, 2006. The first entrants included Cagayan Electric Light & Power Company, Dagupan Electric Corporation, and Manila Electric Company.

On December 13, 2006 the ERC issued Resolution No. 54, Series of 2006, adopting the "Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (Second and later Entry Points)."

On October 24, 2007, Resolution No. 24, Series of 2007, "Resolution Adopting a New Grouping for Privately Owned Distribution Utilities Entering PBR" was issued by the ERC, where DLPC is under Group C, thereby the Regulatory Period will be on July 1, 2010 to June 30, 2014. No specific period was mentioned in this resolution regarding the Regulatory Reset Process, but according to the Rules, it will commence 18 months prior to the start of the Regulatory Period, or from January 1, 2009 to June 30, 2010.

Wholesale Electricity Spot Market. In 2005, the Philippine Electricity Market Corporation (PEMCO) finalized its preparations for the commercial operations of the wholesale electricity spot market, or WESM, as envisioned by Sec. 30 of EPIRA. DLPC participated in a Trial Operations Program last April 2005 in order to test the WESM's hardware and software systems. The WESM system was also certified by PA Consulting as being "substantially compliant" with the WESM rules and the associated market manuals and system operations procedures. In January 2008, the ERC and PEMCO signed a Memorandum of Agreement adopting a protocol in the exercise of their respective authorities with regard to the WESM. The protocol recognizes the ERC's jurisdiction to enforce the rules and regulations of the electricity spot market and investigate and penalize any market participant for anti-competitive behavior and market power abuse, on the one hand, and PEMC's mandate to prevent and penalize breach of the WESM Rules and WESM Market Manuals, on the other.

The PEMCO Board continuously accepted nominations for membership in the following WESM Governance Committees: i) the Dispute Resolution Group; ii) the Rules Change Committee; iii) the Technical Committee; and iv) the Audit Committee. In December 2008, the PEMCO Board Selection Committee confirmed the shortlist of the new batch of nominees. Under the supervision of the PEMCO Board, the WESM Governance Committees will be directly involved in developing and governing the electricity spot market.

Since the commercial operations in Luzon was launched, the Luzon WESM operations saw new trading participants as the cumulative energy mix contribution from hydro and geothermal plants as of April 2008 exceeded last year's. Peak demand in April 2008 exceeded the 2007 annual peak. The Department of Energy (DOE) deferred the operations of WESM in the Visayas citing inadequate capacity in both power and generation and transmission facilities. The Live Dispatch Operations marks the final step of the Visayas Trial Operations which is intended to test the readiness of the market systems and participants prior to full commercial operations. WESM Visayas has been on trial operations since 2005.

Retail Competition. On February 9, 2007, through its Resolution No. 3, Series of 2007, the ERC set out its timeline for the implementation of retail competition and open access. According to the Resolution, retail competition shall commence upon the fulfillment of the preconditions of EPIRA's Section 31 and of two other "vital requirements," i.e., the establishment of necessary infrastructures (such as a customer switching system) and the promulgation of pertinent regulations. The ERC shall also announce the commencement of retail competition six months before its actual implementation.

Given the recent success of the PSALM in bidding out a number NPC's generation assets, including the Masinloc and the Ambuklao-Binga hydroelectric plant system, the ERC announced during a forum last December 3, 2008 that retail competition and open access may begin on July 2010. However, with the withdrawal of Emerald Energy Corporation from the purchase of NPC's 600MW coal-fired power plant, the fulfillment of EPIRA's pre-conditions and, consequently, the start of retail competition and open access may be further delayed.

For its part, the ERC has already promulgated its "seven pillars of retail competition," referring to a set of regulations that embody a framework for implementing retail competition and open access, as envisioned in EPIRA. These are the Retail Electricity Supplier (RES) Licensing Guidelines, the amended Business Separation Guidelines, the Code of Conduct for Competitive Retail Market Participants, the Competition Rules, the Supplier of Last Resort (SoLR) Rules, the Distribution Services and Open Access Rules, and the Uniform Business Practices (UBP). The UBP has since been renamed the Rules for Customer Switching (RCS).

The ERC also promulgated the Rules for Contestability, which would provide for more detailed guidelines on end-user eligibility for retail competition, and is working on the Guidelines of the Business-to-Business information system that would facilitate customer switching and similar procedures in a competitive environment. In accordance with EPIRA, retail competition will begin with end-users with an average peak demand of 1MW. After two years, the second phase of retail competition will begin with the threshold of contestability going down to 750kW, for both single and aggregated loads. Thereafter, the threshold will go down gradually until it reaches the household level within a period of seven years following the second phase of retail competition.

On May 23, 2008, certain industry players filed a Petition with the ERC for the approval of Interim Open Access (IOA) in the Luzon and Visayas grids and its implementation in accordance with the proposed "Terms of Reference of the Interim Implementation of Open Access" which was adopted by the industry players and stakeholders during the Energy Summit 2008. The approval of the Petition would have allowed customers with an average peak demand of 1 MW and up to contract and purchase their electricity requirements from Eligible Generating Companies and Retail Electric Suppliers. Eligible Generation Companies are generation companies which meet the mandated generation market share caps of EPIRA. In a Decision dated November 10, 2008, the ERC renamed IOA as the Power Supply Option Program (PSOP) and approved the implementation thereof subject to the following conditions:

- The distribution utilities shall act as the default supplier and be accountable for the accounting and settlement of imbalances.
- The PSOP shall initially be implemented within the Luzon Grid.

- The implementation of the PSOP shall commence from the transfer of the operation of the Calaca privatized NPC generation assets.
- The PSOP shall cease to be operational upon commencement of actual Open Access and Retail Competition. All related contracts and transactions shall automatically terminate once actual Open Access and Retail Commission is declared by the ERC.
- The PSOP shall be strictly implemented in accordance with the program rules to be promulgated and approved by the ERC.

In December 2008, the ERC released the draft Rules for the PSOP. The said Rules were intended to provide the regulatory framework for the implementation of the PSOP. The said draft rules have not yet been finalized and promulgated by the ERC.

Removal of Cross-subsidies. In December 2005, the Company reflected in the bills of end users the final step in TransCo's intra-grid subsidy removal process. The inter-class subsidy component of the Company's unbundled tariffs are being continually phased out. The gradual removal of cross-subsidies is mandated by Sec. 74 of EPIRA.

f. SEZC Unbundling

SEZC applied for the rate unbundling on April 6, 2006. On February 6, 2008, the ERC approved SEZC's application for authority to unbundle rates in accordance with Section 36 of Republic Act No. 9136, EPIRA of 2001 and implement the revised rates schedule starting on October 26, 2008. Furthermore, the ERC directed the SEZC to phase out its inter-class cross subsidy within a period of 3 years starting with a one-third removal in the first year and the remaining two-thirds inter-class subsidies corresponding to the second and third years at an annual rate similar to that of the first year.

g. Approval of the Issuance of Retail Bonds

On November 20, 2008, the Company's BOD authorized the issuance of 5-year and 7-year peso-denominated bonds worth ₱3 billion, with option to upsize depending on market demand. This was approved by the SEC in March 2009. The bonds is expected to be offered to the general public in April 2009.

The proceeds of the bonds issuance will be used by the Company to finance its planned acquisitions as well as for other general corporate purposes.

32. Events after the Balance Sheet Date

a. Renewable Energy Act of 2008

On January 30, 2009, Republic Act No. 9513, *An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes*, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy

development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments (BOI), shall be entitled to the following incentives, among others:

i. Income Tax Holiday (ITH) - For the first seven (7) years of its commercial operations, the duly registered RE developer shall be exempt from income taxes levied by the National Government;
ii. Duty-free Importation of RE Machinery, Equipment and Materials - Within the first ten (10) years of upon issuance of a certification of an RE developer, the importation of machinery and equipment, and materials and parts thereof, including control and communication equipment, shall not be subject to tariff duties;
iii. Special Realty Tax Rates on Equipment and Machinery - Any law to the contrary notwithstanding, realty and other taxes on civil works, equipment, machinery, and other improvements of a registered RE developer actually and exclusively used for RE facilities shall not exceed one and a half percent (1.5%) of their original cost less accumulated normal depreciation or net book value;
iv. NOLCO - the NOLCO of the RE developer during the first three (3) years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven (7) consecutive taxable years immediately following the year of such loss;
v. Corporate Tax Rate - After seven (7) years of ITH, all RE developers shall pay a corporate tax of ten percent (10%) on its net taxable income as defined in the National Internal Revenue Code of 1997, as amended by Republic Act No. 9337;
vi. Accelerated Depreciation - If, and only if, an RE project fails to receive an ITH before full operation, it may apply for accelerated depreciation in its tax books and be taxed based on such;
vii. Zero Percent VAT Rate - The sale of fuel or power generated from renewable sources of energy shall be subject to zero percent (0%) VAT;
viii. Cash Incentive of RE Developers for Missionary Electrification - An RE developer, established after the effectivity of the Act, shall be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to fifty percent (50%) of the universal charge for power needed to service missionary areas where it operates the same;
ix. Tax Exemption of Carbon Credits - All proceeds from the sale of carbon emission credits shall be exempt from any and all taxes; and

x. Tax Credit on Domestic Capital Equipment and Services - A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and customs duties that would have been paid on the RE machinery, equipment, materials and parts had these items been imported shall be given to an RE operating contract holder who purchases machinery, equipment, materials, and parts from a domestic manufacturer for purposes set forth in the Act.

RE developers and local manufacturers, fabricators and suppliers of locally-produced RE equipment shall register with the DOE, through the Renewable Energy Management Bureau (REMB). Upon registration, a certification shall be issued to each RE developer and local manufacturer, fabricator and supplier of locally-produced renewable energy equipment to serve as the basis of their entitlement to the incentives provided for in the Act. All certifications required to qualify RE developers to avail of the incentives provided for under the Act shall be issued by the DOE through the REMB.

Within six (6) months from the effectivity of the Act, the DOE shall, in consultation with the Senate and House of Representatives Committee on Energy, relevant government agencies and RE stakeholders, promulgate the Implementing Rules and Regulations of the Act.

The Group expects that the Act may have significant effect on the Group's future operations and financial results as the Company has subsidiaries and associates that are RE developers. Impact on financial results is expected to arise from the effective reduction in taxes.

b. Dividends Declaration

On February 11, 2009, the BOD of the Company approved the declaration of a regular cash dividend of ₱0.20 per share (₱1.472 billion) to all stockholders of record as of February 26, 2009, payable on March 23, 2009.