



October 15, 2008

**ARESON R. I. CUEVAS**

Listings Analyst  
 Issuer Regulation Division  
 The Philippine Stock Exchange, Inc.  
 4/F PSE Centre, Exchange Road  
 Ortigas Center, Pasig City

Dear Mr. Cuevas,

We are pleased to submit to you a discussion on the actual disbursements of AP's IPO proceeds as of September 30, 2008 as compared with the estimated use allocations indicated in AP's Prospectus.

Table 1 below shows a summary of the projected use against the actual disbursements of the IPO proceeds.

Table 1: Summary of Projected Use vs. Actual Use of IPO Proceeds

|   | Projected Use          | Actual Use*            | Variance            |        |
|---|------------------------|------------------------|---------------------|--------|
| Improvement to existing power generation facilities   | 175,000,000            | -                      | 175,000,000         |        |
| Improvement to existing power distribution facilities   | 250,000,000            | -                      | 250,000,000         |        |
| Investment in capacity expansion, including potential acquisitions of power generation facilities                     | 4,450,000,000          | 8,321,397,200          | (3,871,397,200)     | Note 1 |
| Development of Greenfield projects  | 4,640,000,000          | 944,654,237            | 3,695,345,763       | Note 2 |
| Purchase of additional equity in existing power distribution utilities/Investment in a Retail Energy Services Company | 0                      | 270,494,876            | (270,494,876)       | Note 3 |
| General corporate requirements, including working capital requirements  | 125,000,000            | 66,854,981             | 58,145,019          | Note 4 |
| <b>Total</b>  | <b>P 9,640,000,000</b> | <b>P 9,603,401,294</b> | <b>P 36,598,706</b> |        |

\*Note: See Table 2 for details of actual use of IPO proceeds

As of September 30, 2008, AP spent approximately P9.603 billion of the proceeds with a significant portion going to investments in capacity expansion mostly through acquisitions. The details as to the nature of the actual disbursements is explained below:

**Note 1 – Investment in Acquisitions of Power Generation Facilities**

To date, 87% of IPO proceeds were disbursed towards investments via acquisition of existing power generation facilities. Out of this total, 53% was spent in the acquisition of the 34% stake in STEAG State Power, Inc. for US\$ 101 million. The total acquisition cost in Philippine peso was P4.405 billion. In June 2008, AP (together with SNPOWER) also successfully won the bidding for the P 175 MW Ambuklao Binga, which accounts for 43% of this item.

In 2008 AP has pursued its plans for further expansion by participating in the bidding for the governments power assets through its privatization program. AP projects that it will exceed its initial projections in this items spending as borne out by the actual investments made to date and the expenses incurred in its bid participation in PNOC-EDC, Palinpinon, Tongonan, and its successful bid for Ambuklao Binga and Tiwi Makban.

**Note 2 – Development of Greenfield Projects**

Approximately ₱4.640 billion was projected for use in Greenfield projects.

As of this reporting, about ₱945 million had been spent, of which ₱553 million was expended for the Cebu Coal project which broke ground in January 2008. The Hedcor Sibulan hydro project accounted for the balance of ₱391.5 million.

**Note 3 – Purchase of Additional Equity in Existing Distribution Utilities**

As previously reported, AP purchased the remaining 20% stake in Subic Enerzone Corporation (SEZC) for ₱92 million and the acquisition of the remaining 40% in Balamban Enerzone Corporation (BEZC) for approximately ₱178 million in March 2008. The two acquisitions resulted to AP's 100% ownership in both SEZC and BEZC as of the first quarter of 2008.

In September, 2008, made an investment in a Retail Energy Services company.

**Note 4 – General Corporate Requirements**

In the second quarter report, we disclosed ₱67 million in IPO related expenses out of the projected ₱125 million projected use for general corporate requirements.

Details of the actual use of IPO proceeds are presented in Table 2 below.

Table 2: Summary of Actual Use of IPO Proceeds

| Period Spent  | Description   | As of<br>September 30, 2008 | Reported in<br>June 30, 2008 |
|---------------|---|-----------------------------|------------------------------|
| Nov07-Jan08   | Purchase of 34% stake in STEAG  | P 4,405,162,467             | P 4,405,162,467              |
| Oct07-Jun08   | Disbursements for Hedcor Sibulan Project  | 391,500,000                 | 391,500,000                  |
| Dec07-Jan08   | Purchase of additional 20% of Subic Enerzone Corp   | 92,000,000                  | 92,000,000                   |
| Jan08-Sept08  | Recapitalization for Cebu Coal Project (Abovant Holdings)   | 553,154,237                 | 484,514,237                  |
| Sep07-Sept 08 | Expenses related to bidding activities for PNOC-EDC, Palinpinon, Tongonan, Ambuklao and Tiwi-Makban | 82,360,052                  | 45,532,646                   |
| Jul07-Oct07   | General IPO related expenses  | 66,854,981                  | 66,854,981                   |
| Feb08-Jun08   | Spending for the Subic Coal Project (Redondo Peninsula Energy, Inc.)                                | 272,839,136                 | 272,839,136                  |
| Mar08         | Purchase of 40% equity in Balamban Enerzone Corporation   | 177,947,664                 | 177,947,664                  |
| Sept 08       | Investment in Retail Energy Services Company  | 547,212                     |                              |
| June -Sept 08 | Acquisition of Ambuklao Binga   | 3,561,035,544               | 736,759,125                  |
|               | Total   | P 9,603,401,294             | P 6,673,110,256              |

Thank you.

Very truly yours,

**ABOITIZ POWER CORPORATION**

By



M. JASMINE S. OPORTO  
Corporate Secretary