COVER SHEET

C 1 9 9 8 0 0 1 3 4

S.E.C. 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

(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 ,

K A S A M B A G A N , C E B U   C I T Y

(Business Address: No. Street City / Town / Province)

ATTY. LEAH I. GERALDEZ		032-411-1804
Contact Person	**Preliminary Information Statement 2009**	Company Telephone Number

		3rd Monday of May
1 2 / 3 1	2 0 - I S	0 5 / 1 8
Month *Day*	FORM TYPE	*Month* *Day*
Fiscal Year		Annual Meeting

Secondary License Type, if Applicable

S E C	
Dept. Requiring this Doc	Amended Articles Number/Section

	x	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

NOTICE AND AGENDA OF THE MEETING

ABOITIZ POWER CORPORATION
Aboitiz Corporate Center,
Gov. Manuel A. Cuenco Avenue
Kasambagan, Cebu City 6000, Philippines

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

NOTICE is hereby given that the Annual Meeting of the Stockholders of **ABOITIZ POWER CORPORATION** will be held on May 18, 2009 at 11:00 a.m. at the Grand Ballroom of the Cebu City Marriott Hotel, Cebu Business Park, Cebu City.

.

The Agenda of the meeting is as follows:

1. Call to Order
2. Proof of Notice of Meeting
3. Determination of Quorum
4. Reading and Approval of the Minutes of the Previous Stockholders' Meeting held last May 19, 2008
5. Presentation of the President's Report
6. Approval of the 2008 Annual Report and Financial Statements
7. Ratification of the Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management in 2008 up to May 18, 2009
8. Delegation of the Authority to Elect the Company's External Auditors for 2009 to the Board of Directors
9. Election of the Members of the Board of Directors
10. Approval of the Directors' Compensation and Per Diem for 2009
11. Approval of the Proposed Amendments to the Company's By-laws
12. Approval of the Proposal to Delegate to the Board of Directors the Power to Amend/Repeal the Company's By-laws or Adopt New By-laws of the Company
13. Other Business
14. Adjournment

Only stockholders of record at the close of business on April 8, 2009 are entitled to notice and to vote at this meeting. Registration will start at 9:00 a.m. and will end at 11:00 a.m. Kindly present any proof of identification, such as driver's license, passport, company I.D. or SSS/GSIS I.D. Aside from personal identification, representatives of corporate stockholders and other entities should also present a duly sworn Secretary's Certificate or a similar document showing his or her authority to represent the corporation or entity.

Should you be unable to attend the meeting, you may want to execute a proxy in favor of a representative. In accordance with the amended By-Laws of the Corporation, proxies must be presented to the Secretary for inspection, validation and record at least seven (7) days prior to the opening of the stockholders' meeting. We enclose a proxy form for your convenience.

For those unable to attend the Stockholders' Meeting in Cebu, a Stockholders' Briefing will be conducted in Manila on May 20, 2009, 4:00 p.m., at the Mandarin Ballroom, Mandarin Oriental Hotel, Makati City.

For the Board of Directors.

M. Jasmine S. Oporto

M. JASMINE S. OPORTO
Corporate Secretary

aboitiz
Power Corporation

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [√] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter **ABOITIZ POWER CORPORATION**

3. Province, country or other jurisdiction of incorporation or organization **Cebu, Philippines**

4. SEC Identification Number **C199800134**

5. BIR Tax Identification Code **200-652-460**

6. **Address of principal office:** **Aboitiz Corporate Center,**
   Gov. Manuel A. Cuenco Avenue,
   Kasambagan, Cebu City,
   6000 Philippines

7. Registrant's telephone number, including area code **(032) 411-1800**

8. Date, time and place of the meeting of security holders

   Date: **18 May 2009**
   Time: **11 o'clock a.m.**
   Place: **Grand Ballroom, Cebu City Marriott Hotel,**
   Cebu Business Park, Cebu City, Cebu

9. Approximate date when the Information Statement is first to be sent or given to security holders **April 24, 2009**

10. In case of Proxy Solicitations: **NA**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the Revised Securities Act (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Par Value	No. of Shares	Authorized Capital Stock
Common	P1.00		P16,000,000,000
Preferred	P1.00		P1,000,000,000
Total			P17,000,000.00

aboitiz
Power Corporation

No. of Common Shares Outstanding as of December 31, 2008	7,358,604,307
Amount of Debt Outstanding as of September 30, 2008	P10,371,798,000

12. **Are any or all of registrant's securities listed on a Stock Exchange?**

Yes X No ____

The common stock of the Corporation is listed on the Philippine Stock Exchange.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of annual stockholders' meeting

Date of meeting	:	**May 18, 2009**
Time of meeting	:	**11 o'clock a.m.**
Place of meeting	:	**Grand Ballroom, Cebu City Marriott Hotel, Cebu Business Park, Cebu City**
Approximate mailing date of this statement	:	**April 24, 2009**
Complete mailing address of the principal office of the registrant	:	**Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000 Philippines**

Item 2. Dissenter's Right of Appraisal

There are no matters or proposed actions included in the Agenda of the Meeting that may give rise to a possible exercise by stockholders of their appraisal rights. Generally, however, the stockholders of Aboitiz Power Corporation (hereinafter referred to as AP or the Company or the Registrant) have the right of appraisal in the following instances: (a) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and (c) in case of merger or consolidation.

Any stockholder who wishes to exercise his appraisal right must have voted against the proposed corporate action. He must also make a written demand on AP, within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of such appraisal right. If the proposed corporate action is implemented or effected, AP shall pay to such stockholder, upon surrender of the certificate or certificates of stock representing his shares, the fair value thereof, as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If, within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and AP cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by APC, and the third by the two thus chosen. The findings of the majority of the appraiser shall be final, and their award shall be paid by APC within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless AP has unrestricted retained earnings in its books to cover such payment. Upon payment by AP of the agreed or awarded price, the stockholder shall forthwith transfer his shares to AP.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a.) No current director or officer of AP, or nominee for election as director of AP, or any associate of any of the foregoing persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon in the stockholders' meeting, other than election to office.

(b.) No director has informed AP in writing that he intends to oppose any action to be taken by AP at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a.) Class of Voting Shares as of January 31, 2009:

Class of Voting Shares	No. of Shares Entitled to Vote
Common Shares	7,358,604,307

Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.

(b.) Record Date: April 8, 2009

All stockholders of record as of April 8, 2009 re entitled to notice and to vote at AP's Annual Stockholders' Meeting.

(c.) Election of Directors and Cumulative Voting Rights

With respect to the election of directors, a stockholder may vote such number of shares for as many persons as there are directors to be elected. He may also cumulate said shares and give one candidate as many votes as the number of directors to be elected, or distribute the shares on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by the stockholder shall not exceed the total number of shares owned by him as shown in the books of AP multiplied by the whole number of directors to be elected.

Article 1 Section 5 of the amended By-Laws of AP provides that voting upon all questions at all meetings of the stockholders shall be by shares of stock and not per capita. Likewise, Section 6 of the same Article states that stockholders may vote at all meetings either in person or by proxy duly given in writing and presented to the Secretary for inspection, validation and record at least seven (7) days prior to the opening of said meeting. A proxy bearing a signature that is not legally acknowledged shall not be recognized by the Secretary.

Section 7, Article I of the amended By-Laws provides that nominations for the election of directors for the ensuing year must be received by the Corporate Secretary no less than fifteen (15) working days prior to the Annual Meeting of stockholders, except as may be provided by the Board of Directors in appropriate guidelines that it may promulgate from time to time in compliance with law.

No discretionary authority to cumulate votes is solicited.

(d.) No proxy solicitation is being made.

(1) Security Ownership of Certain Record and Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of January 31, 2009:

Title of Class	Name/Address of Stockholder and Beneficial Owner	Relationship with AP	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
Common	1. ABOITIZ EQUITY VENTURES, INC.[1] Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City 6000	Stockholder	Filipino	5,569,683,508 (Record)	75.69%
Common	2. PCD Nominee Corp.	Stockholder	Non-Filipino	822,291,579 (Record)	11.17%
Common	3. PCD Nominee Corp.	Stockholder	Filipino	696,383,728 (Record)	9.46%

[1] Mr. Erramon I. Aboitiz, President and Chief Executive Officer of Aboitiz Equity Ventures, Inc. (AEV), will vote the shares of AEV in AP in accordance with the directive of the AEV Board of Directors.

aboitiz Power Corporation

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 January 31, 2009, the following entities own five per centum (5%) or more of AEV:

Title of Class	Name/Address of Stockholder and Beneficial Owner	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
Common	1. **Aboitiz & Company, Inc.** Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000	Filipino	2,476,022,415 (Record)	43.48%
Common	**2. PCD Nominee Corp.**	Filipino	630,399,488 (Record)	11.07%
Common	**3. PCD Nominee Corp.**	Non-Filipino	513,520,253 (Record)	9.02%
Common	**4. Ramon Aboitiz Foundation, Inc.** 35 Lopez Jaena St., Cebu City 6000	Filipino	420,915,863 (Record)	7.39%

(2) Security Ownership of Management as of January 31, 2009 (Record and Beneficial)

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)	Citizenship	Percentage of Ownership
Mr. Jon Ramon Aboitiz Chairman of the Board of Directors	Common	1 – Record 5,959,020 – Beneficial	Filipino	0.0000% 0.0810%
Mr. Erramon I. Aboitiz President and Chief Executive Officer	Common	1 – Record 7,575,000 – Beneficial	Filipino	0.0000% 0.1029%
Mr. Ernesto R. Aboitiz Director	Common	4,083,001 – Record	Filipino	0.0555%
Mr. Antonio R. Moraza Director	Common	1– Record 20,189,078 – Beneficial	Filipino	0.0000% 0.2733%
Mr. Mikel A. Aboitiz Director	Common	1– Record 4,385,197 – Beneficial	Filipino	0.0000% 0.0596%
Mr. Juan Antonio E. Bernad Director, Executive Vice President – Regulatory Affairs	Common	520,001 – Record	Filipino	0.0071%
Mr. Jose R. Facundo Independent Director	Common	1,000 – Record	Filipino	0.0000%
Mr. Romeo L. Bernardo Independent Director	Common	1,000 – Record	Filipino	0.0000%
Mr. Jaime Jose Y. Aboitiz	Common	2,362,500 – Record	Filipino	0.0321%

Executive Vice President – Power Distribution Group				
Mr. Luis Miguel Aboitiz Senior Vice-President – Power Generation Group	Common	2,060,000 – Record	Filipino	0.0280%
Mr. Iker M. Aboitiz First Vice-President / Chief Financial Officer/ Corporate Information Officer	Common	2,745,872 – Record	Filipino	0.0373%
Mr. Gabriel T. Mañalac First Vice – President – Treasurer	Common	50,000 – Record	Filipino	0.0007%
Mr.Wilfredo R. Bacareza, Jr. Vice-President	Common	429,000- Record	Filipino	0.006%
Mr. Anastacio Cubos, Jr. Vice-President – Special Projects	Common	112,069 – Record	Filipino	0.0015%
Benjamin A. Cariaso, Jr. Vice -President – Business Development	Common	224,137 – Record 168, 103 – Beneficial	Filipino	0.0023%
Mr. Alvin S. Arco Vice-President – Regulatory Affairs	Common	112,069 – Record	Filipino	0.0015%
Ms. Cristina B. Beloria Assistant Vice President -Controller	Common	20,000 – Record	Filipino	0.0003%
Ms. Carmela I. Naranjilla Assistant Vice President – Investor Relations	Common	44,000 – Record	Filipino	0.0006%
Ms. Susan S. Policarpio Assistant Vice President – Government Relations	Common	44,827 – Record	Filipino	0.0006%
Ms. M. Jasmine S. Oporto Corporate Secretary	Common	149,000 – Record	Filipino	0.0020%
Mr. Joseph Trillana T. Gonzales Assistant Corporate Secretary	Common	62,527 – Record	Filipino	0.0008%
	TOTAL	0.6961%		51,297,405

(3) Voting Trust Holders of 5% or More of Common Equity

No person holds more than five per centum (5%) of AP's common equity under a voting trust or similar agreement.

(4) Changes in Control

There are no arrangements that may result in a change in control of AP during the period covered by this report.

Item 5. Directors and Executive Officers

(a.) (1) Directors for 2008-2009

Below is a list of AP's directors for 2008-2009 with their corresponding positions and offices held for the past five years. The directors assumed their directorship during AP's annual stockholders' meeting in 2008, for a term of one year.

JON RAMON ABOITIZ, Chairman of the Board of Directors

Mr. Jon Ramon Aboitiz, Filipino, 60 years old, has served as Chairman of AP since 1998. He is also Chairman of the Board of Directors of Aboitiz Equity Ventures, Inc., Aboitiz & Company, Inc., Aboitiz Energy Solutions, Inc., Philippine Hydropower Corporation, Aboitiz Jebsen Bulk Transport Corporation and Aboitiz Transport System (ATSC) Corporation; Chairman and Chief Executive Officer of Davao Light & Power Company, Inc.; Vice Chairman of the Board of Directors of Union Bank of the Philippines and Visayan Electric Company, Inc.; Director of San Fernando Electric Light and Power Company, Inc., Cotabato Light & Power Company, Hijos de F. Escano, Inc., City Savings Bank and Cotabato Ice Plant, Inc.; Chairman of the Board of Trustees of Aboitiz Foundation, Inc. and Trustee of the Ramon Aboitiz Foundation, Inc. He graduated with a degree of Bachelor of Science in Commerce major in Management from the University of Santa Clara, California, U.S.A.

ERRAMON I. ABOITIZ, President & Chief Executive Officer

Mr. Erramon I. Aboitiz, 52 years old, Filipino, has been the President & Chief Executive Officer of AP since 1998. He is also President and Chief Executive Officer of AEV, Aboitiz & Company, Inc., Hedcor, Inc. and Philippine Hydropower Corporation; Chairman of the Board of Directors of Pilmico Foods Corporation, San Fernando Electric Light and Power Company, Inc., City Savings Bank, Cotabato Light & Power Company, Balamban Enerzone Corporation, Mactan Enerzone Corporation, Subic Enerzone Corporation, SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., and Pilmico Animal Nutrition Corporation (formerly, Fil-Am Foods, Inc.); Director of AP Renewables, Inc., Aboitiz Land Inc., Union Bank of the Philippines, Visayan Electric Company, Inc., Davao Light & Power Company, Inc., Southern Philippines Power Corporation, Aboitiz Energy Solutions, Inc., 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, U.S.A.

ERNESTO R. ABOITIZ, Director

Mr. Ernesto R. Aboitiz, 76 years old, Filipino, has been a Director of AP since 1998. He was President of Davao Light & Power Company, Inc. and Cotabato Light & Power Company from 1970 to 1987. He served as Chairman and President of National Power Corporation (NPC) from 1987 to 1991. He acted as Chairman and General Manager of the Mindanao Development Authority from 1972 to 1975. He is a retired consultant of Davao Light & Power Company, Inc. and Aboitiz & Company, Inc. and a member of the Bishops' Businessmen's Conference-Cebu. He holds a degree in Electrical Engineering from the University of Santa Clara in California, U.S.A.

ANTONIO R. MORAZA, Director

Mr. Antonio R. Moraza, 52 years old, Filipino, has been a Director of AP since 1999. He is the President and Chief Executive Officer of Pilmico Foods Corporation and Pilmico Animal Nutrition Corporation. He is also Chairman of the Board of Directors of AP Renewables, Inc. and Vice-Chairman of the Board of Directors of Aboitiz Construction Group, Inc. and Aboitiz Land, Inc. He is likewise a Director and Senior Vice President of Aboitiz & Company, Inc., Director of Tsuneishi Heavy Industries (Cebu) Inc., Visayan Electric Company, Inc., Union Bank of the Philippines, SN Aboitiz Power-Benguet, Inc. and Philippine Association of Flour Millers. He holds a degree in Business Management from the Ateneo de Manila University and attended the Asian Institute of Management.

MIKEL A. ABOITIZ, Director

Mr. Mikel A. Aboitiz, 54 years old, Filipino, has been a Director since 1998. He is also Senior Vice President and Chief Information Officer of AEV since 2004 and was recently appointed as Chief Strategy Officer of AEV in February 2009. He is also Senior Vice President and Chief Information Officer of Aboitiz and Company, Inc.; President and Chief Executive Officer of City Savings Bank; and Director of Aboitiz Construction Group, Inc., Aboitiz Land, Inc., Cotabato Light & Power Company, Davao Light & Power Company, Inc., FBMA Marine, Inc., Pilmico Foods Corporation and Pilmico Animal Nutrition Corporation (formerly, Fil-am Foods, Inc.). He has a Bachelor of Science degree in Business Administration from Gonzaga University, Spokane, U.S.A.

JUAN ANTONIO E. BERNAD, Director

Mr. Juan Antonio E. Bernad, 52 years old, Filipino, has been AP Director since 1998. He is also Executive Vice President - Regulatory Affairs of Aboitiz Power Corporation, Director and Executive Vice President - Regulatory Affairs of Davao Light & Power Company, Inc.; Director and Senior Vice President/Chief Financial Officer of Cotabato Light & Power Company; Senior Vice President of Aboitiz and Equity Ventures, Inc., Director of Union Bank of the Philippines; Senior Vice President - Regulatory Compliance Officer of Visayan Electric Company, Inc.; Chairman of the Board of Trustees of the Aboitiz & Company, Inc. Retirement Fund and Trustee of Aboitiz Foundation, Inc. He graduated with a degree of Bachelor of Arts in Economics from Ateneo de Manila and took his Masters in Business Administration at The Wharton School, University of Pennsylvania, U.S.A.

JOSE R. FACUNDO, Independent Director

Mr. Jose R. Facundo, 70 years old, Filipino, currently serves as an Adviser and Director 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 President and Executive Committee Member of BPI Capital Corporation. He was also Director and Executive Committee Member of the Bank of the Philippine Islands BPI. Prior to BPI's merger with CityTrust Banking Corp. (CityTrust), Mr. Facundo served as President and Chief Executive Officer and Executive Committee Member of CityTrust. He was also a Senior Managing Director of Ayala Corporation and formerly a Senior Officer of Citibank Manila. He also served as Director of Temic Phil. Inc.; Chairman of the Board of Directors of the Philippine Clearing House; 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. Romeo L. Bernardo, 54 years old, Filipino, 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 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 Alternate Director of the Asian Development Bank and an Undersecretary for International Finance, Privatization and Treasury Operations. He was an Advisor to the Executive Director of the World Bank and the International Finance Corporation (Washington D.C.), Assistant to the Executive

Director of the International Monetary Fund (IMF) 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.

Nominations for Independent Directors and Procedure for Nomination

The procedure for the nomination and election of the independent directors is in accordance with SRC Rule 38 of the Securities Regulation Code (SRC Rule 38) and AP's "Guidelines for the Constitution of the Nomination Committee and the Nomination and Election of Independent Directors" (the "Guidelines"). These Guidelines were duly approved by the AP Board.

Nominations for independent directors were accepted starting January 1, 2009 as provided for in Section 2 of the Guidelines and the table for nominations was closed on February 15, 2009 as provided for in Section 3 of the Guidelines.

SRC Rule 38 and the Guidelines further require that the Nomination Committee shall meet to pre-screen all nominees and shall submit a Final List of Candidates to the Corporate Secretary no later than February 22 so that such list will be included in the Corporation's Preliminary and Definitive Statements. Only nominees whose names appear on the Final List shall be eligible for election as independent directors. No other nominations shall be entertained after the Final List of Candidates has been prepared. The name of the person or group of persons who recommend the nomination of an independent director shall be identified in such report including any relationship with the nominee. All these procedures were complied with.

In approving the nominations for Independent Directors, the Nomination and Compensation Committee considered the guidelines on the nominations of Independent Directors prescribed in SRC Rule 38, the Guidelines and AP's Revised Manual on Corporate Governance.

No nominations for independent director shall be accepted at the floor during the stockholders' meeting at which such nominee is to be elected. However, independent directors shall be elected in the stockholders' meeting during which other members of the Board are to be elected.

Messrs. Jose R. Facundo and Romeo L. Bernardo are the nominees for Independent Directors of AP. They are neither officers nor employees of AP or any of its affiliates, and do not have any relationship with AP which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Attached as annexes "A-1" and "A-2" are the Certifications of Qualification of the Nominees for Independent Directors.

AP stockholders Eufe Santiago and Elena Garcia have nominated Messrs. Bernardo and Facundo, respectively, as AP's independent directors. Neither nominating stockholder has any relation to either Mr. Bernardo or Mr. Facundo.

Other Nominees for Election as Members of the Board of Directors

As conveyed to the Corporate Secretary, the following will also be nominated as members of the Board of Directors for the ensuing year (2009-2010):

Jon Ramon Aboitiz
Erramon I. Aboitiz
Ernesto R. Aboitiz
Antonio R. Moraza
Mikel A. Aboitiz
Enrique M. Aboitiz Jr.
Juan Antonio E. Bernad
Jaime Jose Aboitiz

Pursuant to Sec. 7, Art. I of the Amended By-Laws of AP, nominations for members of the Board of Directors for the ensuing year must be received by the Corporate Secretary no less than fifteen (15) working days prior to the regular annual stockholders' meeting on 18 May 2009, or not later than 27 April 2009.

Except for the information regarding Messrs. Enrique M. Aboitiz and Jaime Jose Aboitiz, which are found hereunder, information regarding the positions and offices held by the abovementioned nominees are integrated in Item 5 (a)(1) hereof.

ENRIQUE M. ABOITIZ, JR., Nominee for Director

Mr. Enrique M. Aboitiz, Jr., 55 years old, Filipino, has served as Director of AEV since 1994. He is also Director and Senior Vice President of Aboitiz and Company, Inc; Director and President/Chief Executive Officer of Aboitiz Transport System (ATSC) Corporation; Director and President of Aboitiz Jebsen Bulk Transport Corporation, EMS Crew Management Philippines, Inc., Jebsens Maritime, Inc.; Chairman of Filscan Shipping Inc., General Charterer Inc., Overseas Bulk Transport, Inc. and Viking International Carriers, Inc. He graduated with a degree of Bachelor of Science in Business Administration (Major In Economics) from Gonzaga University, Spokane, Washington, U.S.A.

JAIME JOSE Y. ABOITIZ, Nominee for Director

Mr. Jaime Jose Y. Aboitiz, 47 years old, Filipino, is currently Executive Vice President-Power Distribution Group of AP. He has been a member of the AP Executive Committee since 2000 and was AP Director from 2004 to April 2007. He is the Executive Vice President and Chief Operating Officer of Visayan Electric Company, Inc. and the President and Chief Operating Officer of Davao Light & Power Company, Inc. He is also President & Chief Executive Officer of Cotabato Light & Power Company, and President of Subic Enerzone Corporation, Mactan Enerzone Corporation, Balamban Enerzone Corporation and Aboitiz Energy Solutions, Inc. 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.

Officers for 2008-2009

Below is a list of AP's officers for 2008-2009 with their corresponding positions and offices held for the past five years. The officers assumed their positions during AP's annual organizational meeting in 2008 for a term of one year.

ERRAMON I. ABOITIZ, President & Chief Executive Officer

Mr. Erramon I. Aboitiz, 52 years old, Filipino, has been the President & Chief Executive Officer of AP since 1998. He is also President and Chief Executive Officer of AEV, Aboitiz & Company, Inc., Hedcor, Inc. and Philippine Hydropower Corporation; Chairman of the Board of Directors of Pilmico Foods Corporation, San Fernando Electric Light and Power Company, Inc., City Savings Bank, Cotabato

Light & Power Company, Balamban Enerzone Corporation, Mactan Enerzone Corporation, Subic Enerzone Corporation, SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., and Pilmico Animal Nutrition Corporation (formerly, Fil-Am Foods, Inc.); Director of AP Renewables, Inc., Aboitiz Land Inc., Union Bank of the Philippines, Visayan Electric Company, Inc., Davao Light & Power Company, Inc., Southern Philippines Power Corporation, Aboitiz Energy Solutions, Inc., 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, U.S.A.

JUAN ANTONIO E. BERNAD, Executive Vice President – Regulatory Affairs

Mr. Juan Antonio E. Bernad, 52 years old, Filipino, has been AP Director since 1998. He is also Executive Vice President - Regulatory Affairs of AP, Director and Executive Vice President - Regulatory Affairs of Davao Light & Power Company, Inc.; Director and Senior Vice President/Chief Financial Officer of Cotabato Light & Power Company; Senior Vice President of Aboitiz and Equity Ventures, Inc., Director of Union Bank of the Philippines; Senior Vice President - Regulatory Compliance Officer of Visayan Electric Company, Inc.; Chairman of the Board of Trustees of the Aboitiz & Company, Inc. Retirement Fund and Trustee of Aboitiz Foundation, Inc. He graduated with a degree of Bachelor of Arts in Economics from Ateneo de Manila and took his Masters in Business Administration at The Wharton School, University of Pennsylvania, U.S.A.

JAIME JOSE Y. ABOITIZ, Executive Vice President - Power Distribution Group

Mr. Jaime Jose Y. Aboitiz, 47 years old, Filipino, is currently Executive Vice President-Power Distribution Group of AP. He has been a member of the AP Executive Committee since 2000 and was AP Director from 2004 to April 2007. He is the Executive Vice President and Chief Operating Officer of Visayan Electric Company, Inc. and the President and Chief Operating Officer of Davao Light & Power Company, Inc. He is also President & Chief Executive Officer of Cotabato Light & Power Company, and President of Subic Enerzone Corporation, Mactan Enerzone Corporation, Balamban Enerzone Corporation and Aboitiz Energy Solutions, Inc. 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.

LUIS MIGUEL O. ABOITIZ, Senior Vice President – Power Generation Group

Mr. Luis Miguel O. Aboitiz, 44 years old, Filipino, has been Senior Vice President-Power Generation Group since 2007. He was AP Director and Vice President for Power Generation from 1998 to April 2007. He is also First Vice President of AEV and Aboitiz & Company, Inc.; Director and Senior Vice President – Business Development of Hedcor, Inc.; Director and Vice President/Treasurer of Philippine Hydropower Corporation; Director of Davao Light & Power Company, Inc., Pilmico Animal Nutrition Corporation (formely, Fil-Am Foods Inc.) and Pilmico Foods Corporation; President of SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc. and Manila-Oslo Renewable Enterprise, Inc. He graduated at Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering and took his Masters in Business Administration from the University of California at Berkeley, U.S.A.

IKER M. ABOITIZ, First Vice President/Chief Financial Officer/Corporate Information Officer

Mr. Iker M. Aboitiz, 36 years old, Filipino, has been AP's First Vice President and Chief Financial Officer since August 2007. He likewise acts as AP's Corporate Information Officer. He is currently a Director and Chief Financial Office of Abovant Holdings, Inc. He is also the Chief Financial Officer position of East Asia Utilities Corporation and Cebu Private Power Corporation and Director of Western Mindanao Power Corporation. Prior to his appointment as Chief Financial Officer of AP, he was the Chief Financial Officer of Aboitiz Construction Group, Inc. and Director 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. Gabriel T. Mañalac, 52 years old, Filipino, has been the Treasurer of AP since 2004. He is also Senior Vice President - Group Treasurer of AEV; First Vice President for Treasury Services of Aboitiz & Company, Inc.; Vice President/Treasurer of Davao Light & Power Company, Inc. and Treasurer of Cotabato Light & Power Company. Mr. Mañalac graduated Cum Laude with a degree of Bachelor of Science in Finance and Bachelor of Arts in Economics from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance from the Asian Institute of Management and awarded Institute's Scholarship for Merit.

WILFREDO R. BACAREZA, JR., Vice President

Mr. Wilfredo R. Bacareza, 31 years old, Filipino, 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. He also served as legal adviser of the Philippine National Construction Corporation and Metropolitan Waterworks and Sewerage System. 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.

ANASTACIO D. CUBOS, JR., Vice President - Special Projects

Mr. Anastacio D. Cubos, Jr., 57 years old, Filipino, has been Vice President for Special Projects of AP since 1998. He is also the Senior Vice President for Special Projects of Davao Light & Power Company, Inc., Director and Vice President for Technical Services of Aboitiz Energy Solutions, Inc., Consultant of Hedcor, Inc. and a member of the Technical Executive Committee of Cotabato Light & Power Company. He is also a consultant of the Republic of Palau for its generation projects. 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.

BENJAMIN A. CARIASO, JR., Vice President for Business Development

Mr. Benjamin A. Cariaso, 53 years old, Filipino, has been Vice President for Business Development of AP since April 2007. He is also Executive Vice President and Chief Operating Officer of Aboitiz Energy Solutions, Inc., Subic Enerzone Corporation, Mactan Enerzone Corporation and Balamban Enerzone Corporation and Director of City Savings Bank. He was previously Vice President for Business Development of AEV from 1998 to 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.

ALVIN S. ARCO, Vice President for Regulatory Affairs

Mr. Alvin S. Arco, 48 years old, Filipino, has been Vice President for Regulatory Affairs of AP since April 2007. He is also Assistant Vice President for Finance of Aboitiz Energy Solutions, Inc. and Vice President for Regulatory Affairs of Davao Light & Power Company, Inc. He was Accounting Manager of AP from 1998 to 1999, Assistant Vice President – Finance from 2000 to 2004 and Vice President – Finance from 2005 to 2007. He was Chief Accountant of Davao Light & Power Company, Inc. in 1997, Accounting Manager from 1998 to 1999, Assistant Vice President – Finance from 2000 to 2004. He likewise served as Assistant Vice President – Finance of Cotabato Light & Power Company between 2002 and 2005 and Vice President – Finance since 2006. Mr. Arco is a Certified Public Accountant. He holds a degree in Accountancy from the University San Jose-Recoletos, Cebu City.

CRISTINA B. BELORIA, Assistant Vice President - Controller

Ms. Cristina B. Beloria, 46 years old, Filipino, has been Assistant Vice President and Controller of AP since June 10, 2008. She was previously Plant Controller of East Asia Utilities Corporation and Cebu Private Power Corporation from 2000 to 2008. She had various consulting engagements in People Technology Solutions in Tokyo, Japan from 1999-2000, was Senior Auditor in the E.C. Ortiz and Co., CPAs in Chicago, Illinois U.S.A., and Financial Editor of ODS Corporation in Tokyo, Japan. Ms. Beloria holds a degree in Science and Commerce, Major Accounting from the University of San Jose Recoletos in Cebu City. She is a Certified Public Accountant (Philippine CPA Licensure Exam and Uniform CPA Licensure Examination, Chicago, Illinois, USA).

M. CARMELA NARANJILLA, Assistant Vice President-Investor Relations

Ms. Carmela I. Naranjilla, 37 years old, Filipino, has been Assistant Vice President for Investor Relations of AP since 2008. She is also Assistant Vice President for Investor Relations of AEV. Prior to her stint with the Aboitiz Group, 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 was 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 was also an 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. She is a graduate of Bachelor of Science in Business Economics (Cum Laude) from the University of the Philippines.

SUSAN S. POLICARPIO , Assistant Vice President - Government Relations

Ms. Susan S. Policarpio, 52 years old, Filipino, has been AP's Assistant Vice President for Government Relations since February 23, 2009. Prior to her stint in AP, she was the Assistant Vice President for Government Relations of Aboitiz Transport System (ATSC) Corporation 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 the 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.

M. JASMINE S. OPORTO, Corporate Secretary/Compliance Officer

Ms. M. Jasmine S. Oporto, 49 years old, Filipino, has been Corporate Secretary of AP since 2007. She is also First Vice President - Chief Legal Officer, Corporate Secretary and Compliance Officer of AEV. She is also General Counsel and First Vice President for Legal and Corporate Services of Aboitiz &

Company, Inc.; Vice President for Legal Affairs of Davao Light & Power Company, Inc.; Corporate Secretary of Visayan Electric Company, Inc., AP Renewables, Inc. and Luzon Hydro Corporation; and Trustee of the Aboitiz & Company, Inc. Retirement Fund. Prior to joining AEV, 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. She obtained her Bachelor of Laws from the University of the Philippines and is a member of both the Philippine and New York bars.

JOSEPH TRILLANA T. GONZALES, Assistant Corporate Secretary

Mr. Joseph Trillana T. Gonzales, 42 years old, Filipino, has been Assistant Corporate Secretary of AP since 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 Aboitiz & Company, Inc. 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.

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 amended Company By-laws, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election and until his successor is duly elected unless he resigns, dies or removed prior to such election.

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. The Directors shall serve for a term of one (1) year and until the election and qualification of their successors.

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.

(2) Significant Employees

AP considers the contribution of every employee important to the fulfillment of its goals.

(3) Family Relationships

Mr. Ernesto R. Aboitiz is the father of Mr. Jaime Jose Y. Aboitiz. Messrs. Jaime Jose Y. Aboitiz and Luis Miguel Aboitiz are first cousins. Mr. Ernesto R. Aboitiz is also the uncle of Messrs. Jon Ramon Aboitiz, Mikel A. Aboitiz and Erramon I. 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.

(4) Involvement in Certain Legal Proceedings

(a) Filipinas System, Inc. vs. Jose Mari Cacho et. al.
I.S. no. 05-9841
Office of the City Prosecutor
Quezon City
December 12, 2005

On October 17, 2005, a complaint for violation of Articles 316(1) and 318 of the Revised Penal Code of the Philippines was filed by Filipinas System, Inc. with the Quezon City Prosecutor's Office naming as respondents, among other persons, Messrs. Antonio R. Moraza, Erramon I. Aboitiz, Juan Antonio E. Bernad and Jon Ramon Aboitiz, in their capacities as directors of AEV and Union Bank of the Philippines ("UBP"). The complaint alleged the failure of a consortium consisting of AEV, UBP and Union Properties Inc. to pay approximately ₱23.8 million in connection with the construction works on the World Finance Plaza Project (now the Union Bank Plaza). The complaint was dismissed by the Quezon City Prosecutor's Office in a resolution dated February 20, 2007 after which Filipinas System, Inc. filed a petition to review the dismissal with the Department of Justice. However, according to a certificate issued by the Department of Justice dated May 15, 2007, a motion to withdraw the petition to review the dismissal was filed on April 27, 2007 by Filipinas System, Inc., which was accompanied by affidavits from Filipinas System, Inc.'s duly authorized representatives moving to dismiss the complaint. The motion to withdraw remains pending for resolution before the Department of Justice.

(b) 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: (1) 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 occurred.

To the knowledge and/or information of AEV, other than as disclosed above, none of its nominees for election as directors, its present members of the Board of Directors or its executive officers, is presently or during the last five (5) years, been involved in any legal proceeding in any court or government agency in the Philippines or elsewhere which would put to question their ability and integrity to serve AEV and its stockholders. To the knowledge and/or information of AEV, the above-said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or by the laws of any other nation or country.

(5) Certain Relationships and Related Transactions

(a.) Parent Company

AP's parent company is AEV. As of January 31, 2009, AEV owns 75.69% of AP. Meanwhile, Aboitiz & Company, Inc. owns 43.48% of AEV as of January 31, 2009.

(b.) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board of Directors since the date of AP's last annual meeting because of a disagreement with AP on matters relating to its operations, policies and practices.

Item 6. Compensation of Directors and Executive Officers

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 & 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	₱11,500,000	₱1,000,000	₱ 6,350,000
	Projected 2009	₱12,400,000	₱ 1,070,000	₱ 6,900,000
All other directors and officers as a group unnamed	Actual 2006	₱ 5,000,000	₱ 400,000	₱ 2,600,000
	Actual 2007	₱7,300,000	₱ 540,000	₱ 2,600,000
	Actual 2008	₱ 7,300,000	₱540,000	₱ 5,620,000
	Projected 2009	₱ 7,900,000	₱600,000	₱6,100,000

(2) Compensation of Directors

(i) Standard Arrangements

In 2008 all of AP's directors received a monthly allowance of ₱80,000 per month. In addition, each director received a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Per Diem
Board Meeting	₱50,000
Committee Meeting	₱30,000

For 2009 it is proposed that all of AP's directors shall receive a monthly allowance of ₱80,000, except for the Chairman of the Board who shall receive a monthly allowance of ₱120,000. In addition, each director and the Chairman of the Board shall receive a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱50,000	₱75,000
Committee Meeting	₱30,000	₱30,000

The proposed monthly allowance and per diem of the AP directors for 2009 will be submitted for the approval of the stockholders during the 2009 Annual Stockholders Meeting.

(ii) Other Arrangements

Other than payment of a director's allowance and per diem as stated, 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.

(3) Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

There is no compensatory plan or arrangement between AP and any executive in case of resignation or any other termination of employment or from a change in the management control of AP.

(4) Warrants and Options Outstanding

To date, AP has not granted any stock option to its directors or officers.

Item 7. Independent Public Accountant

The accounting firm of Sycip, Gorres, Velayo & Company (SGV) has been AP's Independent Public Accountant for the last twelve (12) years. Mr. Ladislao Z. Avila, Jr. is the current audit partner of AP and has served as such since 2004. Representatives of SGV will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed.

There was no event in the past eleven (11) years where AP and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Item 8. Compensation Plans

No action is to be taken during the stockholders' meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

None.

Item 10. Modification or Exchange of Securities

None.

Item 11. Financial and Other Information

None.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

None.

Item 13. Acquisition or Disposition of Property

None.

Item 14. Restatement of Accounts

None.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

1. Approval of the Minutes of the 2008 Annual Meeting of Stockholders dated May 19, 2008 (with summary of the Minutes attached as Annex "A")
2. Approval of the Annual Report of Management for the year ending 31 December 2008

Item 16. Matters Not Required to be Submitted

There is no act of Management and the Board of Directors in the preceding year that needs the approval of the stockholders.

Ratification of acts of Management and of the Board of Directors referred to in the Notice of the Annual Meeting refers only to acts done in the ordinary course of business and operation of AP, which have been duly disclosed to the SEC and the PSE in accordance with law. Ratification is being sought in the interest of transparency and as a matter of customary practice or procedure undertaken at every annual meeting of AP stockholders.

A summary of the board resolutions approved during the period January 2008 to February 2009 is provided as follows:

Regular Board Meeting, February 06, 2008

1. Authority to act as surety for the loan/credit accommodations granted by Metropolitan Bank and Trust Company to the Corporation's subsidiaries
2. Authority to avail of institutional products of First Metro Investment Corporation
3. Authority of the Corporation to extend temporary advances to the following corporations:
   a. Cotabato Light & Power Company - (P105,300,000.00)
   b. Davao Light & Power Company, Inc. - (P158,800,000.00)
   c. Aboitiz Transport Systems Corporation - (P110,000,000.00)
   d. Pilmico Foods Corporation -(P250,000,000.00)
   e. Abovant Holdings, Inc. - (P343,867,708.80)
4. Authority to act as surety for the loan/credit accommodations granted by Metropolitan Bank and Trust Company to Philippines Hydropower Corporation
5. Authority to extend stockholders advances to Abovant Holdings, Inc. in the amount of One Hundred Forty One Million Sixty Four Thousand Seven Hundred Four Pesos (P141,064,704.00)
6. Authority to extend temporary advances to Davao Light & Power Company, Inc. in the amount of Eight Hundred Seventy Million Pesos (P870,000,000.00)
7. Authority to extend stockholders advances to Cotabato Light & Power Company in the amount of Forty Five Million Pesos (P45,000,000.00)
8. Authority to extend stockholders advances to Aboitiz Energy Solutions, Inc. in the amount of Fifteen Million Pesos (P15,000,000.00)
9. Opening of depository account with Union Bank of the Philippines for the Corporation's 2008 cash dividend payment
10. Purchase of 40% Balamban Enerzone Corporation equity in Tsuneishi Holdings (Cebu), Inc.
11. Authority of Mr. Andoni F. Aboitiz to secure Car Pass/Sticker from Ma. Luisa Estate Park
12. Cash Dividend Declaration in the amount of P0.18 per share or a total amount of P1,324,548,775.26 to all stockholders of record as of the close of business hours on February 21, 2008, payable on March 3, 2008.
13. Approval of the Revised Internal Audit Charter

Special Board Meeting, March 26, 2008

1. Authority to extend temporary advances to the following corporations:
   a. Aboitiz & Company, Inc. - (P999,600,000.00)
   b. Aboitiz Transport System Corporation - (P240,000,000.00)
   c. Cotabato Light & Power Company - (P5,600,000.00)
   d. Davao Light & Power Company, Inc. - (P85,300,000.00)
   e. Fil-Am Foods, Inc. - (P11,800,000.00)
   f. Hedcor Sibulan, Inc. - (P136,700,000.00)
   g. Pilmico Foods Corporation - (P283,600,000.00)
2. Authority of Erramon I. Aboitiz, Jon Ramon Aboitiz, Luis Miguel O. Aboitiz, Juan Antonio E. Bernad and Iker M. Aboitiz to represent AP in all stockholders' meetings of San Fernando Electric Light and Power Company
3. Authority to enter into settlement with Transfield Philippines, Inc.
4. Approval of 2007 Audited Financial Statements
5. Authority of Jon Ramon Aboitiz, Erramon I. Aboitiz, Juan Antonio E. Bernad, Luis Alfonso Y. Aboitiz, Luis Miguel O. Aboitiz, Jaime Jose Aboitiz and Iker M. Aboitiz to represent AP in all stockholders' meetings of Visayan Electric Company, Inc.

12. Authority of Jon Ramon Aboitiz, Erramon I. Aboitiz, Juan Antonio E. Bernad, Luis Alfonso Y. Aboitiz, Luis Miguel O. Aboitiz, Jaime Jose Aboitiz and Iker M. Aboitiz to represent AP in all stockholders' meetings of Hijos de F. Escaño, Inc.
13. Approval of appointment of M. Carmela I. Naranjilla as Assistant Vice President for Investor Relations.

Regular Board and Organizational Meeting, May 19, 2008

1. Sponsor support for the Ambuklao-Binga Project
2. Authority to call for additional funding in the amount of approximately US $14.5 million made by Redondo Peninsula Energy, Inc. (RP Energy) on the Corporation
3. Authority to extend loan advances to SN Aboitiz Power – Benguet, Inc. in the amount of US $ 325,000,000 for the partial financing of Ambuklao Binga Hydroelectric Power Plant
4. Authority to avail of institutional products of the following banks:
   a. China Trust (Philippine) Commercial Bank Corporation
   b. The Hongkong and Shanghai Banking Corporation
   c. Rizal Commercial Banking Corporation
   d. Standard Chartered Bank
5. Authority to enroll in Secure Digital Banking System (Security Digibanker) of the Security Bank Corporation
6. Authority to extend stockholders' advances to Philippine Hydropower Corporation
7. Appointment of any one of Jon Ramon Aboitiz, Erramon I. Aboitiz and Luis Miguel O. Aboitiz as sub-proxy for STEAG State Power, Inc. special stockholders' meeting
8. Appointment of Board Committee Members
9. Appointment of the officers of AP

Regular Board Meeting, August 14, 2008

1. Appointment of Mr. Jaime Jose Y. Aboitiz as Executive Vice President for Power Distribution Group
2. Approval of the AP Audit Committee Charter
3. Ratification of the authority of the Corporation to extend stockholders' advances to Philippine Hydropower Corporation in the amount of US$13,087,500.
4. Authority of the Corporation to extend temporary advances to the following corporations:
   a. Aboitiz & Company, Inc. - (₱ 2,500,000,000.00)
   b. Aboitiz Transport System Corporation - (₱ 1,000,000,000.00)
   c. Hedcor Sibulan Inc. - (₱700,000,000.00)
   d. Subic Enerzone Corporation - (₱200,000,000.00)
   e. Cotabato Light & Power Company - (₱200,000,000.00)
   f. Davao Light and Power Company, Inc. - (₱1, 000,000,000.00)
   g. Pilmico Foods Corporation - (₱ 2,000,000,000.00)
   h. Fil-am Foods Corporation, Inc. - (₱ 1,000,000,000.00)
   i. Aboitiz Energy Solutions, Inc. - (₱ 200,000,000.00)
   j. Aboitiz One, Inc. - (₱ 400,000,000.00)
   k. Aboitiz One Distribution, Inc. - (₱ 100,000,000.00)
   l. Aboitiz Land, Inc. - (₱ 1, 200,000,000.00)
5. Authority to avail of institutional products of the following banks:
   a. Australia and New Zealand Banking Corporation
   b. Deutsche Bank
   c. The Hongkong and Shanghai Banking Corporation Limited
   d. Calyon Bank
   e. Standard Chartered Bank

f. The Bank of Tokyo-Mitsubishi UFJ, Ltd.
g. Citibank N.A.
h. Chinatrust (Philippines) Commercial Bank Corporation
i. Bank of the Philippine Islands
j. Metropolitan Bank and Trust Company
k. Security Bank Corporation
l. Mizuho Corporate Bank, Ltd.

6. Authority to avail of Domestic Bills Purchase Line with Security Bank Corporation
7. Authority of the Corporation to subscribe One Million Ninety Four Thousand Four Hundred Twenty Three (1,094,423) common shares of Mazzaraty Energy Corporation
8. Authority of the Corporation to sell One Hundred Fifty Thousand (150,000) common shares of stock in Abovant Holdings, Inc. to Therma Power, Inc.
9. Authority of the Corporation to sell Fifty Thousand (50,000) common shares of stock in Redondo Peninsula Energy, Inc. to Therma Power, Inc.
10. Authority of the Corporation to sell Five Thousand (5,000) common shares of stock in AP Renewables, Inc. to Philippine Hydropower Corporation
11. Authority of the Corporation to issue corporate notes and bonds

Special Board Meeting, August 19, 2008

1. Appointment of Mr. Wilfredo R. Bacareza, Jr. as AP's new Vice President.

Regular Board Meeting, November 20, 2008

1. Authority to avail of institutional products of the following banks:
   a. Australia and New Zealand Banking Group Limited (ANZ)
   b. The Bank of New York (BNY) Mellon
   c. The Bank of Tokyo Mitsubishi UFJ, Ltd. – Manila Branch
   d. BNP Paribas Bank
   e. Calyon Bank
   f. Chinatrust (Philippines) Commercial Bank Corporation
   g. Citibank N.A.
   h. Deutsche Bank
   i. Internationale Nederlanden Groep (ING) Bank N.V., Manila Branch
   j. The Hongkong and Shanghai Banking Corporation Limited (HSBC)
   k. JP Morgan Chase Bank
   l. Maybank Philippines, Inc. (MPI)
   m. Mizuho Corporate Bank, Ltd. – Manila Branch
   n. Standard Chartered Bank (SCB)
   o. The Royal Bank of Scotland (RBS)
   p. Banco de Oro (BDO)
   q. Bank of the Philippine Islands (BPI)
   r. China Banking Corporation (Chinabank)
   s. Development Bank of the Philippines (DBP)
   t. Land Bank of the Philippines (Land Bank)
   u. Metropolitan Bank and Trust Company (MBTC)
   v. Philippine National Bank (PNB)
   w. Rizal Commercial Banking Corporation (RCBC)
   x. Security Bank Corporation (SBC)
   y. Union Bank of the Philippines (UBP)

2. Authority of the following subsidiaries and affiliates to avail of the credit facilities of AP with Bank of the Philippine Islands (BPI)
3. Authority to transfer to Philippine Hydropower Corporation AP's US$12 million share in the AP and Pacific Hydro Bakun, Inc. hold-out account.
4. Authority to issue corporate fixed notes in the principal face amount not to exceed ₱5 billion.
5. Authority of the Corporation to undertake a retail bond offering up to a maximum of ₱ 5 billion fixed rate bonds (the "Bonds")
6. Reply to the findings of the Office of the General Accountant of the Securities and Exchange Commission on the 2007 Audited Financial Statements
7. Signing of International Swaps and Derivatives Association (ISDA) Master Agreement
8. Authority of the Corporation to sell Five Thousand (5,000) common shares of stock in Therma Power Visayas, Inc. to Therma Power, Inc.

Item 17. Amendment of Charter, Bylaws or Other Documents

(a) Art. I (Stockholders' Meeting), Title – To add Title: **"STOCKHOLDERS' MEETING."**

(b) Art. I (Stockholders' Meeting), Sec. 3 (Notices) – To insert the word **"CORPORATE"** before Secretary;

(c) Art. I (Stockholders' meeting), Sec. 6 (Proxy)

– To insert the word "CORPORATE" before Secretary(ies);

- To add the phrase **"UNLESS OTHERWISE STATED THEREIN"** before any proxy issued by the stockholder shall be valid for only one meeting…;

(d) Art. II (The Board of Directors), Sec. 5 (Meetings) – To delete provision that board meetings shall be at the principal office.

(e) Art. II (The Board of Directors), Sec. 7 (Order of Business) – To insert the word **"CORPORATE"** before Secretary;

(f) Art. III (Officers), Sec. 1 (Corporate Officers)

– To change the title from General Proviso to **"CORPORATE OFFICERS"**;

-To insert the word **"CORPORATE"** before Secretary and between Assistant and Secreatary(ies);

(g) Art. III (Officers), Sec. 2 (General Proviso) – To add Section on **"GENERAL PROVISO"**:

"IN ADDITION TO THE DUTIES ENJOINED UPON THEM BY LAW OR THESE BY-LAWS, THE OFFICERS OF THE CORPORATION SHALL EXERCISE SUCH POWERS AND DISCHARGE SUCH DUTIES AS THE BOARD OF DIRECTORS MAY PRESCRIBE FROM TIME TO TIME."

(h) Art. III (Officers), Sec. 5 (President) – To delete authority of the President to preside and call to order all meetings of the stockholders.

(i) Art. III (Officers) – To delete Sections 5, 6, 7, 8 and 9 – Role of Executive Vice President, Senior Vice President, First Vice President, Vice President and Assistant Vice President, respectively;

(j) Art. III (Officers), Sec. 6 (Corporate Secretary) – To insert the word **"CORPORATE"** before Secretary;

(k) Art. III (Officers), Sec. 7 (Assistant Corporate Secretary) – To insert the word **"CORPORATE"** between Assistant and Secretary;

(l) Art. III (Officers) – To delete Section 13 – Role of Assistant Treasurer

(m) Art. III (Officers), Sec. 9 (Executive Committee)

– Membership of Executive Committee may be determined by the Board and powers of the Executive Committee:

> **"AN EXECUTIVE COMMITTEE MAY BE FORMED TO CONSIST OF SUCH NUMBER OF MEMBERS AS MAY BE DETERMINED BY THE BOARD OF DIRECTORS PROVIDED THAT NOT LESS THAN THREE (3) MEMBERS THEREOF SHALL BE MEMBERS OF THE BOARD OF DIRECTORS. THE POWERS OF THE EXECUTIVE COMMITTEE SHALL EXTEND TO ANY ACTS WITHIN THE COMPETENCE OF THE BOARD, EXCEPT WITH RESPECT TO THE FOLLOWING:"**
>
> **A) APPROVAL OF ANY ACTION FOR WHICH SHAREHOLDERS' APPROVAL IS ALSO REQUIRED;**
> **B) THE FILLING OF VACANCIES IN THE BOARD OF DIRECTORS;**
> **C) THE AMENDMENT OR REPEAL OF THESE BY-LAWS OR THE ADOPTION OF NEW BY-LAWS;**
> **D) THE AMENDMENT OR REPEAL OF ANY RESOLUTION OF THE BOARD OF DIRECTORS WHICH BY ITS EXPRESS TERMS IS NOT SO AMENDABLE OR REPEALABLE; AND**
> **E) A DISTRIBUTION OF CASH DIVIDENDS TO THE STOCKHOLDERS.**

(n) Art. V (Fiscal Year, Dividends, Auditing and Inspection of Books of Accounts), Sec. 2 (Dividends) – To insert the word **"RETAINED"** between unrestricted and earnings.

Item 18. Other Proposed Action

None.

Item 19. Voting Procedures

(a) Vote Required for Election

Article 1 Section 4 of the amended By-Laws of AP states that a quorum for any meeting of stockholders shall consist of the majority of the outstanding capital stock of AP, and that a majority of such quorum shall decide any question in the meeting except those matters in which the Corporation Code requires a greater proportion of affirmative votes.

Regarding the election of members to the Board of Directors, nominees who receive the highest number of votes shall be declared elected pursuant to Section 24 of the Corporation Code of the Philippines. Likewise, the nominee for AP's external auditor who receives the highest number of votes shall be declared elected.

(b) The Method by which the Votes will be Counted

In the election of directors, the top nine (9) nominees with the most number of votes shall be declared elected. If the number of nominees does not exceed the number of directors to be elected, all the shares present or represented at the meeting will be cast in favor of the nominees. If the number of nominees exceeds the number of directors to be elected, voting will be done by ballots.

In the election of directors, the stockholder may choose to do any of the following:

(a) Vote such number of shares for as many person(s) as there are directors to be elected;
(b) Cumulate such shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares;
(c) Distribute his shares on the same principle as option (b) among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected.

The method of counting the votes of shareholders shall be in accordance with the general provisions of the Corporation Code of the Philippines. The counting of votes shall be done by representatives from Sycip, Gorres, Velayo and Associates as External Auditors and the Office of the Corporate Secretary, all of whom shall serve as members of the Election Committee.

Other than the nominees' election as directors, no director, executive officer, nominee or associate of the nominees has any substantial interest, direct or indirect by security holdings or otherwise, in any way of the matters to be taken upon during the meeting. AP has not received any information that an officer, director or stockholder intends to oppose any action to be taken at the Annual Stockholders' Meeting.

AP's Annual Report in SEC Form 17-A will be given free of charge to AP stockholders upon written request. Please write to:

Investor Relations Office
Aboitiz Power Corporation
Aboitiz Corporate Center
Gov. Manuel A. Cuenco Avenue,
Kasambagan, Cebu City

Attention: Ms. M. Carmela Naranjilla

This Information Statement and the Annual Report in SEC Form 17-A will also be posted at AP's website: www.aboitizpower.com.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Cebu on March 09, 2009.

ABOITIZ POWER CORPORATION
By:

M. JASMINE S. OPORTO
Corporate Secretary

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired a 20% ownership interest in Visayan Electric Company Inc. (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 Cotabato Light and Power Company. In July 1946, the Aboitiz Group strengthened its position in power distribution in the Southern Philippines when it acquired Davao Light and Power Company Inc. (DLPC), which is now the third-largest privately-owned electric utility in the Philippines in terms of customers and annual gigawatt-hour (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' 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 Hydro Electric Development Corporation ("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 Northern Mini Hydro Corporation (now Cleanergy, Inc.) in June 26, 1990, which focused on the development of mini-hydroelectric projects in Benguet province in Northern Luzon. By 1990, HEDC and Cleanergy had commissioned and were operating 14 plants with a combined installed capacity of 36 megawatts (MW). In 1996, the Aboitiz Group led the consortium that entered into a build-operate-transfer (BOT) agreement with the National Power Corporation (NPC) to develop and operate the 70MWBakun AC hydroelectric plant in Ilocos Sur province.

The registrant, Aboitiz Power Corporation (AP) 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, AP was repositioned in the third quarter of 2003 as a holding company that owned power generation assets only. The divestment by AP of its power distribution assets was achieved through a property dividend declaration in the form of AP'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 AP consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini-hydroelectric assets into HEDCOR, Inc. (formerly Benguet Hydropower Corporation).

In December 2006, the Company and its partner, SN Power Invest AS ("SN Power"), through SNAP-Magat, submitted the highest bid for the 360 MW Magat hydroelectric plant auctioned by PSALM. The price offered was US$530 million. PSALM turned over possession and control of the Magat Plant to SNAP-Magat on April 26, 2007.

In a share swap agreement with AEV last January 20, 2007, 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:

- An effective 54.7% ownership interest in VECO, which is 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;
- 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;
- An effective 64.3% ownership interest in SEZ, which manages the power Distribution System of the Subic Bay Metropolitan Authority ("SBMA"); and
- 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.

In February 2007 the Company entered into a Memorandum of Agreement with Taiwan Cogeneration International Corporation to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone. In May 2007 Redondo Peninsula Energy, Inc. 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 East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. EAUC operates a Bunker C-fired plant with a capacity of 50MW 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 70MW Bunker C-fired plant in Cebu City.

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 100.0% 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% 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% equity ownership in STEAG Power, owner and operator of a 232MW 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% equity in August 2007. The total purchase price for the 34% equity in STEAG Power is US$102 million, inclusive of interests.

On November 28, 2007, SNAP-Benguet (formerly SN Aboitiz Power Hydro, Inc.), a consortium between AP and SN Power, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75MW Ambuklao Hydroelectric Power Plant located at Bokod, Benguet and the 100MW 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% equity in SEZ of AP's subsidiary DLPC, this acquisition brings AP's total equity in SEZ to 100.0%.

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 100.0%.

Ownership in AP was opened to the public through an initial public offering 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 is in the process of implementing 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.

(2) Business of Issuer

With investments in power generation and distribution companies throughout the Philippines, AP is considered one of the leading Filipino owned companies in the power industry.

(i) Principal Products

GENERATION OF ELECTRICITY

Since its incorporation in 1998, AP has accumulated interests in both hydroelectric power generation plants and thermal plants. As of December 31, 2007, approximately 63% of AP's net income is derived from its power generation business. AP conducts its power generation activities through the following subsidiaries and affiliates:

Philippine Hydropower Corporation

AP, a leader in the hydroelectric power industry in the Philippines, holds all its investments in renewable energy through its wholly owned subsidiary, Philippine Hydropower Corporation (PHC). PHC owns equity interests in the following generation companies:

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

- 50% equity interest in Luzon Hydro Corporation (LHC), which operates the 70 MW Bakun AC hydroelectric plant in Ilocos Sur province in Northern Luzon.

- 50% effective interest in SN Aboitiz Power-Magat Inc. (SNAP-Magat), which operates the 360 MW Magat hydroelectric plant in Isabela in Northern Luzon.

- 50% effective interest in SN Aboitiz Hydro Inc. (SNAP Hydro), which operates the 175 MW Ambuklao-Binga Hydroelectric Power Plant Complex in Northern Luzon.

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

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

- 100% equity interest in AP Renewables, Inc., which won the bid for the Tiwi-MakBan geothermal facilities.

HEDCOR, Inc. (HEDCOR)

HEDCOR was originally incorporated on October 10, 1986 by Aboitiz & Company, Inc. (ACO) as the Baguio-Benguet Power Development Corporation. PHC acquired its 100.0% ownership interest in HEDCOR in 1998. In 2005, PHC 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–hydro plants of the run–of–river type in Northern Luzon and Davao City in Southeastern Mindanao with a combined installed capacity of 38.2 MW. All the electricity generated from HEDCOR's mini-hydro plants are taken up by the National Power Corporation (NPC), San Fernando Electric Light and Power Company Inc. (SFELAPCO), Davao Light and Power Company Inc. (DLPC) and Philex Mining Corporation (Philex) pursuant to power purchase agreements with the said offtakers.

In 2006 and 2007, Hedcor's mini-hydroelectric plants generated a total of 158.0 GWh and 162.3 GWh of electricity, respectively. During the first nine months of 2007 and 2008, Hedcor's mini hydroelectric plants generated a total of 103.9 GWh and 128.4 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.

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.

Luzon Hydro Corporation (LHC)

LHC is PHC's joint venture company with Pacific Hydro Pty Ltd of Australia, a privately-owned Australian company that specializes in developing and operating power projects that use renewable energy sources, principally water and wind power.

LHC operates and manages the 70 MW Bakun AC hydro project, which is located within the 13,213 hectare watershed area of the Bakun River in Ilocos Sur province in Northern Luzon. The project is a run–of–river power plant which taps the flow of the neighboring Bakun River to provide the plant with its generating power. The US$150 million project was constructed and is being operated under the government's build–operate–transfer scheme. Energy produced by the plant is delivered and taken up by NPC pursuant to a power purchase agreement (the Bakun PPA) 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.

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 will be 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 SNAP Magat.

In September 2007 SNAP-Magat obtained a US$380 million loan from 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. The US$380 million loan consists of a dollar tranche of up to US$160 million, and a peso tranche of up to ₱11.5 billion.

The loan was used to partially finance the deferred balance of the purchase price of the Magat HEPP 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 HEPP.

SN Aboitiz-Benguet, Inc.

SNAP-Benguet (formerly SN Aboitiz Power Hydro), 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 last 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, the operating company for the generating plant, 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 ₱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 SNAP-Benguet to an income tax holiday.

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.

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.

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.

Cebu Private Power Corporation (CPPC)

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

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 were by Vivant Energy Corporation of the Garcia family of Cebu, who together with AP, are the major shareholders of Visayan Electric Company Inc. (VECO). VECO owns all of the outstanding preferred shares of CPPC, which comprises approximately 20.0% of the total outstanding capital stock of CPPC.

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 232MW (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.

With its 34.0% stake in STEAG Power, AP is equity partner with majority stockholder Evonik, Germany's fifth largest power generator, which currently holds 51% equity in STEAG Power. La Filipina Uy Gongco Corporation holds the remaining 15% equity in STEAG Power.

Abovant Holdings, Inc. (Abovant)

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

Abovant, which is 60% owned by AP and 40% owned by Vivant, 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 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 diesel power plant in Alabel, Sarangani just outside General Santos City 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 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.

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 Energy Conversion Agreement (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.

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 300MW 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 30 July 2008, APRI submitted the Winning Bid of US$ 447 million 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. 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 22 August 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 Meralco. Rates for the transition supply contracts 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, 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 54.7MW Bunker C-fired Bajada stand-by plant, which is capable of supplying 24.0% of DLPC's requirements. CLPC maintains a stand-by 7MW 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% 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 55MW 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 39.0% of its net income as of October 31, 2008. AP had a total customer base of 636,641 in 2007 as against a total customer base of 617,184 in 2006. As of October 31, 2008, AP has a total customer base of 654,240.

The table below summarizes the key operating statistics of the Company's power distribution companies as of October 31, 2008.

Company	Electricity Sold (MWh)			Peak Demand (MWh)			No. of Customers		
	October 2008	2007	2006	Oct-08	2007	2006	Oct-08	2007	2006
VECO	1,460,323	1,680,537	1,571,451	326	313	308	294,543	288,587	282,634
DLPC	1,136,412	1,331,437	1,268,742	247	245	238	255,490	247,341	238,612
SFELAPCO	336,643	391,999	365,639	79	74	75	72,808	70,071	66,477
CLPC	98,369	117,523	112,928	23	23	22	28,751	27,966	26,911
SEZ	242,510	199,082	179,006	59	44	36	2,549	2,576	2,472
MEZ	119,877	137,233	126,913	22	22	21	73	75	66
BEZ	52,836	56,798	49,685	15	17	12	26	25	12
Total	3,446,970	3,914,609	3,674,364	771	738	712	654,240	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 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 the extension of its Certificate of Public Convenience and Necessity ("CPCN") was recently approved by the ERC.

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.

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.

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 99.92% 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 54.8 MW Bunker C-fired standby plant (the Bajada Plant), which is capable of supplying 22.0% 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 P4.0856 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 99.91% 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 is expected to commence on April 1, 2009.

The ERC will conduct public hearings prior to implementation of CLPC's resulting distribution rate structure. A final approved rate structure is expected to be published on March 31, 2009. After communicating with its customers, 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, for implementation 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% 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 100.0%.

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 100.0%.

Aboitiz Energy Solutions, Inc. (AESI)

AP offers a range of 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 rules implementing EPIRA 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. Customers for this service include electric cooperative companies, such as the Agusan del Norte Electric Cooperative and the Davao Del Norte Electric Cooperative, and various industrial establishments and commercial establishments, including shopping malls operated by the SM Group, the largest mall operator in the Philippines.

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.

Power Distribution Management. AESI also manages the operation and maintenance services of the power distribution facilities of privately developed special economic zones. For its services, AESI is paid a fixed monthly fee. Customers include the MEZ and BEZ.

(ii) Sales

Comparative amounts of revenue, profitability and identifiable assets are as follows:

	2008	2007	2006
Gross Income		11,312	8,681
Operating Income		1,952	1,252
Total Assets		36,163	12,345

Note: Values in the above table are in Million Pesos.

The operations of AP and its subsidiaries and affiliates are based only in the Philippines.

Comparative amounts of revenue contribution by business grouping are as follows:

Business Segment	2008		2007		2006	
Power Generation			2,499	22%	782	9%
Power Distribution			8,798	78%	7,916	91%
Services			335	3%	64	0.7%
Total Revenue			**11,632**		**8,762**	
Less: Eliminations			(320)	(3%)	(81)	(0.7%)
Net Revenue			**11,312**	**100%**	**8,681**	**100%**

Note: Values for the above table are in Million Pesos. Percentages refer to the business group's share in net revenue for a given year.

(iii) Distribution Methods of the Products or 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.

(iv) New Products/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.

(v) Competition

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-Binga, 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 Philippine, 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 Certificate of Public Convenience and Necessity 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 of by competitors of any of the Distribution Companies' franchises could adversely affect the Company's results of operations.

(vi) Sources 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 National Water Resources Board (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	Five years and three 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	Five 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
SEZ	Two-and-a-half years; expiring in March 2008	90,000	Yes	U.S.$0.0668 per kWh exclusive of transmission and ancillary service charges
BEZ	N/A	N/A	N/A	N/A
MEZ	Ten 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, Suawan and Panigan plants in August 2010.

VECO has entered 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.

(vii) Major 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.

(viii) Transactions with and/or Dependence on Related Parties
(Amounts in thousands except when indicated)

AP and its subsidiaries (the AP Group) enter into transactions with its parent, associates and other related parties, principally consisting 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 ₱ 27,154, ₱15,537 and ₱150,503 in 2007, 2006 and 2005, respectively.

(b) Management agreement with AEV in 2006. AEV was the sole and general manager of DLPC, CLPC and Hedcor for which the former was entitled to a fee based on agreed rates. In 2007, AEV transferred the management contract to AP. Management fees charged to operations 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 ₱170,868, ₱131,358 and ₱92,735 in 2007, 2006 and 2005, respectively.

(d) Management service agreement with AP and Vivant Corporation ("Vivant") in 2007. AP 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 2007.

(e) Energy fees billed by CPPC to VECO which amounted to ₱1,645.66 million.

(f) Aviation services rendered by AEV Aviation to the AP Group. Total expenses from associate amounted to ₱12,655, ₱10,692 and ₱3,025 in 2007, 2006 and 2005, respectively.

(g) Lease of commercial office units by the AP Group from Cebu Praedia Development Corporation for a period of three years. Rental expense amounted to ₱28,190 in 2007, ₱25,263 in 2006 and ₱17,290 in 2005.

(h) Technical and management services agreement. AP provides services associated with the operations and maintenance of the electricity distribution system of SFELAPCO and OKEELANTA Corporation. Total technical and management service fee income amounted to ₱8.6 million, ₱7.0 million, and ₱7.2 million in 2007, 2006 and 2005, respectively.

(i) Cash and short-term deposits with UBP, a related company, which amounted to ₱9,177,118 in 2007.

(j) Advances to/from related parties, both interest and noninterest-bearing, payable on demand. Interest-bearing advances are based on annual interest rates ranging from 5.13% to 8.25% in 2007, 5.17% to 17.0% in 2006, and 6.60% to 17.0% in 2005. Net interest expense incurred on these advances amounted to ₱29.9 million in 2007, ₱47.8 million in 2006, and ₱77.5 million in 2005.

(ix) 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 Certificate of Compliance ("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:

Title of Document:	Issued under the name of:	Power Plant					Date of Issuance
Certificate of Compliance No. 03-11-GXT33-0033	HEDC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	December 7, 2006
		Hydro	Tadlangan, Tuba, Benguet	2.56	Hydro	13	
		Hydro	Nangalisan, Tuba, Benguet	2.50	Hydro	13	
		Hydro	Ampucao, Itogon, Benguet	2.40	Hydro	15	
		Hydro	Bito, La Trinidad, Benguet	10.75	Hydro	15	
		Hydro	Banengbeng, Sablan,	8.00	Hydro	15	

			Benguet				
		Hydro	Calinan, Davao City	1.00	Hydro	16	
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	-	-	
Certificate of Compliance No. 03-11-GXT32-0032	NMHC	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	
Certificate of Compliance No. 08-08-	WMPC	Type	Location	Capacity (in MW)	Fuel	Years Of Service	August 7, 2008

GXT20-0020		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 National Water Resources Board 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 Certificate of Public Convenience and Necessity 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[2]	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 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).

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

2 Distribution Service Management Agreement with the Subic Bay Metropolitan Authority

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.
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	Original Certificate of Registration No. 4-2006-007306 was issued on August 20, 2007.

				letter "S" taking the shape of a flame (the company logo) above the words.	
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

(x) Effect of Existing or Probable Government Regulations on the Business

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) protect a fair and level playing field for suppliers and buyers of electricity, wherein prices are driven by market forces.

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.or 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 DU 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 DU'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 utliities 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 one hundred (100) 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 7th 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 Operation and Maintenance in their PBR applications; for distribution utilities that are already under PBR, the actual use shall be treated as Operation and Maintenance in their respective subsequent reset; and for electric cooperatives, actual company use shall be treated as Operation and Maintenance in the benchmarking methodology.

(xi) Estimate of Amount Spent for 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.

(xii) Costs and Effect of 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.

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.

(xiii) Employees

On the parent company level, AP has a total of 22 employees as of September 30, 2008, composed of executive, supervisory, and rank and file staff. There is no existing collective bargaining agreement covering AP employees.

As of September 30, 2008, the Company, its consolidated subsidiaries, LHC, VECO, SNAP-Benguet, SNAP-Magat, EAUC and MORE employed a total of 1,657 employees, of which 1,421 are 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.

Business Unit	Number of Employees					Unionized Employees	Expiry of CBA
	Total	Executives	Managers	Supervisors	Rank & File		
Aboitiz Power Corporation	22	11	3	2	6	0	NA
Aboitiz Energy Solutions, Inc.	15	1	1	4	9	0	NA
Balamban Enerzone Corporation	7	0	0	1	6	0	NA
Mactan Enerzone Corporation	17	1	2	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	49	3	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.	410	18	126	61	205	205	6/15/09
Hedcor, Inc.	275	5	7	14	249	249	9/19/13
Visayan Electric Company, Inc.	476	13	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	2073						

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.

(xiv) Major Risk/s Involved in the Business

Certain risks are inherent to the businesses that AP and its investee companies are engaged in. Through prudent management and investment decisions, AP constantly strives to minimize the impact of such risks on its businesses. The following are the major risks inherent to AP's businesses:

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 Republic Act 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% of NPC's generation plants have been privatized. A 70% level of generation asset divestiture is targeted by the Government. The WESM was declared operational in Luzon on 23 June 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 hydro 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 offsetby 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 Wholesale Electricity Spot Market (WESM). Electricity generated by the Binga hydroelectric plant, on the other hand, is 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 off-takers. 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.

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.

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 is expected to commence on April 1, 2009.

The ERC will conduct public hearings prior to implementation of CLPC's resulting distribution rate structure. A final approved rate structure is expected to be published on March 31, 2009. After communicating with its customers, 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, for implementation 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 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 gross domestic product ("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. Republic Act 7832 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 ten months 2008.

Systems Loss

	DLPC	CLPC	VECO	SFELAPCO	SEZ	MEZ	BEZ
10 mos. 2008	8.06%	10.43%	9.84%	6.38%	2.21%	1.27%	2.0%
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 to 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.

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%).

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 Pesos. The revenues of the Distribution Companies and SNAP-Magat and SNAP-Benguet are denominated in 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 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.

Item 3. Legal Proceedings

Material Pending Legal Proceedings

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 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 termination 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 and VECO's redundancy program has been 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 ₱309,800,000. 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 Local Board of Assessment Appeals ("LBAA") of Talisay City, Cebu issued a Notice of Assessment and Tax Bill (for Tax Declaration Nos. 68006 to 68065) against VECO for ₱ 10,500,000 real property tax on VECO's electrical posts and transformers. The assessment was increased to ₱16,900,000 in 2004. On November 17, 2005, the assessment was further increased to ₱17,500,000. In 2003, VECO paid under protest the amount of ₱2,000,000. This matter is currently pending before the 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 ₱32,000,000 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 9, 2009,2008 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 Bureau of Internal Revenue ("BIR") the amount of ₱15,400,000, 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 Republic Act ("RA 9480"). 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.

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.

LHC Tax Audit

The BIR regional office in Vigan, Ilocos Sur issued a letter of authority to LHC for the conduct of audit for alleged deficiency taxes for taxable year 2004 in the amount of ₱184,700,000. LHC submitted its protest letter in December 2006. In January 2007 the BIR reduced the assessed deficiency taxes to ₱71,900,000. On August 20, 2008 LHC filed a second protest letter to the revised deficiency tax assessment. On February 10, 2009, LHC received a revised assessment from the BIR lowering the tax assessment to ₱5,657,000. LHC does not believe that it is liable for any deficiency taxes on final and expanded withholding tax, creditable value-added tax and fringe benefit tax, and intends to contest any tax assessment that may be issued by the BIR.

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 hearing, in compliance the said order, LHC presented to the court a copy of the PPA. However, the court noticed that page 36 is missing in LHC's copy of the PPA version. Instead of deciding on the relevancy of the document, the court issued another order directing LHC to present a copy of a complete PPA version for the next hearing set on February 26, 2009.

HEDCOR Inc. vs. The Province of Benquet, The Provincial Treasurer of Benquet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer
Civil Case No. 08- CV-2414
RTC Br. 63, La Trinidad, Benquet
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 Hydro Electric Development Corporation ("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 Northern Mini Hydro Corporation ("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 Electric Power Industry Reform Act of 2001 ("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 Benquet, The Provincial Treasurer of Benquet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer
Civil Case No. 08-CV-2416
RTC Br. 63. La Trinidad, Benquet
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 Republic Act No. 9136 or the Electric Power Industry Reform Act ("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. The initial presentation of evidence for both cases is scheduled on February 17 and 18, 2009.

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 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 awaiting notice from the Regional Trial Court for scheduled hearings for the presentation of evidence by MECO.

In 2007, with the approval of PEZA, Aboitizland transferred all of its power assets and business to a new corporation, MEZ, which is now the real party in interest in the case.

LHC Real Property Tax Assessment

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

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.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

(1) 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 within 2007 and 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

As of January 31, 2009, AP has 480 stockholders of record, including PCD Nominee Corp. (Filipino) and PCD Nominee Corp. (Foreign). Common shares outstanding as of same date were 7,358,604,307 shares.

(2) The top twenty stockholders of AP as of January 31, 2009 are as follows:

Rank	Name and Address	Nationality	Number of Shares	Percentage
1	ABOITIZ EQUITY VENTURES, INC.	Filipino	5,569,683,508	75.69 %
2	PCD NOMINEE CORPORATION (Foreign)	Other Alien	822,291,579	11.17%
3	PCD NOMINEE CORPORATION (Filipino)	Filipino	696,383,728	9.46%
4	ABOITIZ LAND, INC.	Filipino	151,112,722	2.05%
5	DANIELE MANAGEMENT & DEVELOPMENT CORPORATION	Filipino	13,955,392	0.19%
6	SAN FERNANDO ELECTRIC LIGHT AND POWER COMPANY	Filipino	7,931,034	0.11%
7	LILOAN AGRO INDUSTRIAL DEVELOPMENT CORPORATION	Filipino	6,051,405	0.08%
8	ARMOZA MANAGEMENT & DEVELOPMENT CORPORATION	Filipino	4,043,078	0.05%

9	PARRAZ DEVELOPMENT CORPORATION	Filipino	3,618,760	0.04%
10	VALERIA CAVESTANY	Filipino	3,217,888	0.04%
11	SIERRAROSA, INC.	Filipino	2,598,022	0.04%
12	SABIN M. ABOITIZ	Filipino	2,592,746	0.04%
13	KAYILKA HOLDINGS, INC.	Filipino	2,443,080	0.03%
14	JAIME JOSE ABOITIZ	Filipino	2,362,500	0.03%
15	IKER M. ABOITIZ	Filipino	2,145,872	0.03%
16	SANFIL MANAGEMENT CORPORATION	Filipino	2,026,263	0.03%
17	EAA MANAGEMENT CORPORATION	Filipino	1,986,340	0.03%
18	SOFO MANAGEMENT	Filipino	1,986,340	0.03%
19	JIA MANAGEMENT CORPORATION	Filipino	1,986,340	0.03%
20	JOEMOR MANAGEMENT AND DEVELOPMENT CORPORATION	Filipino	1,980,501	0.03%
			==========	========
	TOTAL TOP 20 ===>		7,300,397,098	99.21%
			==========	========
	OTHER STOCKHOLDERS===>		58,207,209	0.79%
			==========	========
	TOTAL OUTSTANDING===>		7,358,604,307	100.00%

(3) 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	P0.20	₱1.47B	2/26/2009
2008	P0.18	₱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.

Item 6. Management's Discussion and Analysis or Plan of Action

Key Performance Indicators

Management uses the following indicators to evaluate the performance of registrant and its subsidiaries:

1. **Equity in Net Earnings (Losses) of Investees.** This represents the Group's share in the undistributed earnings or losses of its investees for each reporting period after the acquisition of said investments, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of

acquisition. Equity in net earnings (losses) of investees indicates the profitability of the investments and the investees' contribution to the Group's net income.

Computation: Investee's Net Income (Loss) x Investor's Percentage Ownership less Goodwill Impairment Cost

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** EBITDA is calculated as net income before minority interest, net interest expense, income tax expense, amortization and depreciation. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts.

3. **Cash Flow Generated.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period, and analyzes how the 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 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 Group's short–term debt paying ability. The higher the ratio, the more liquid the Group.

5. **Debt–to–Equity Ratio.** This gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

The table below shows the comparative figures of the top five (5) key performance indicators for the first ten (10) months of 2008 and 2007 and as of December 31, 2007 (amounts in thousands except for financial ratios):

	Oct. 31/2008	Oct. 31/2007	DEC. 31/2007
EQUITY IN NET EARNINGS OF INVESTEES	**2,196,128**	**2,045,465**	
1.1.1 EBITDA	**4,508,655**	**4,333,648**	
CASH FLOW GENERATED:			
Net cash provided by(used in) operating activities	1,020,260	2,643,610	
Net cash used in investing activities	(5,201,507)	(5,654,823)	
Net cash provided by (used in) financing activities	348,830	14,319,647	
Net Increase (Decrease) in Cash & Cash Equivalents	**(3,832,417)**	**11,308,433**	
Cash & Cash Equivalent, Beginning	13,287,811	1,494,272	
Cash & Cash Equivalent, End	9,802,222	12,715,764	
1.1.2 CURRENT RATIO	**1.89**		**2.52**
DEBT-TO-EQUITY RATIO	**0.38**		**0.31**

DISCUSSION ON KEY PERFORMANCE INDICATORS:

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 largest incremental contribution came from STEAG Power, which contributed ₱1.011 billion for the first ten months of 2008. LHC also contributed 459 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 rest of the earning contributions came from the full year income of EAUC, also a recent acquisition.

The Company's EBITDA grew by 4% 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 totranslate 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 shown in the increase in the investments made by the Company during the first ten months of the year versus investments made as of yearend 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 of the SEC of the General Accountant in its letter to AP dated _February 3, 2009 and which letter was replied to by AP on February 18, 2009.

In compliance with the Incomplete Disclosure on Segment Reporting, Note 17 in the accompanying reviewed financial statements as of October. 31, 2008 has endeavored to disclose the basis for inter-segment revenues. The Company has not allocated or transferred revenues or expenses among its segments.

On the disclosure relating to Business Combination, Note 6 on the accompanying reviewed financial statements as of October 31, 2008 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.

In the December 31, 2007 financial statements of the Company, Note 29 refers to a DLPC's refund resulting from an adverse decision rendered by the Supreme Court. The amounts were disclosed in the DLPC's financial statements as immaterial but for purposes of full disclosure the estimated amount due for refund to DLPC's customers is P 4.08 million.

Financial Results of Operations

The Company's net income for the first ten months of 2008 grew by 17.13% to 3.707 billion from P3.165 billion for the same period last year. This translates to an earnings per share of P0.49 for the month ending October 31, 2008 versus an earnings per share of P0.49 ending October 31, 2007. Earnings per share remained flat due to the higher number of outstanding shares as of October 2008 compared to October 2007.

The Distribution Companies posted higher electricity sales for the period, resulting to an income contribution of P1.187 billion, up by 4% from last year's 1.143 billion. The Distribution Companies' kilowatt-hour electricity sales for the period grew by 17.4% year-on-year, from 2,215 GWh to 2,601 GWh. Aside from the contributions arising from the 2007 acquisitions, the expansion of SEZ's industrial segment, mainly due to the operation of the Hanjin shipyard in SBFZ, accounted for the strong growth of the distribution business.

The power generation business shored in a net income contribution of 2.21 billion, recording a 84% year-on-year growth from last year's 1.85 billion. The strong growth is attributed to the incremental earnings contributions from the 2007 acquisitions, with a major contribution coming from the 232MW STEAG coal power plant.

Total power sold by the Generation Companies for the period in review recorded a 107% year-on-year expansion, from 715 GwH to 1,486 GwH. This robust performance is attributed to the 41% year-on-year increase in AP's attributable capacity, from 411MW to 578MW. The increase was brought about by the acquisition of the 34% equity stake in the 232MW STEAG Power coal power plant in November 2007 and the turnover of the 175MW Ambuklao-Binga hydroelectric 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 Registrant's Income Statement

Consolidated net income attributable to equity holders grew by 562 million or 18.34%. Below is a reconciliation of growth in the consolidated net income:

Consolidated Net Income Attributable to Equity Holders of the Parent for the ten months of 2007	3,066,570
Increase in Revenues	1,056,336
Increase in Cost and Expenses	(1,037,723)
Growth from Share in Equity Earnings	150,663
Increase in Interest Income	286,116
Increase in Interest Expense	(165,976)
Increase in Other Income	288,053
Higher Provision for Income Taxes	(35,456)
Decrease in Minority Interests	20,386
Total Growth	562,399
Consolidated Net Income Attributable to Equity Holders of the Parent for the ten months of 2008	3,628,969

Total consolidated revenue grew by 11.36% versus the same period last year. The distribution subsidiaries' consolidated revenues increased by 432 million, a 6% increase for the period. The combined revenues of the Enerzone companies - recent acquisitions MEZ and BEZ as well as SEZ - grew by 44%. SEZ's revenue alone went up by 31% due to Hanjin, a large shipbuilding customer operating within the SBFZ.

On the other hand, the consolidated revenues of the power generation business recorded a strong growth of 31% or ₱613 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 t to its ten full month revenue contribution as of October 31, 2008 compared to onlyseven 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 13.49% increase in consolidated costs and expenses was primarily due to the additional cost of CPPC's generated power. The cost of power purchased by SEZ, MEZ and BEZ also added to the increase.

The growth on the share in net earnings of associates increased by 7.37%. The ₱979.1 million income contribution of STEAG Power offset significantly 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 plantsin July 2008. EAUC, another recent acquisition, made a full ten months contribution as of October 31, 2008 in the total amount of 89.1 million.

Interest income increased by 131.9%. 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.

Interest expense also increased by 129.2% due to the availment of a short-term loan.

Other Income increased by ₱288 million as a result of forex losses in the prior year which swung to forex gains in 2008. The unrealized forex gains come from the AP parent's dollar denominated cash balances and advances to a subsidiary.

As a result of the foregoing, income before income tax increased by 577 million or 15.6% over the same period a year ago. Provision for taxes increased by 6.5% to 583 million from a prior period provision of 548 million.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2007 levels, consolidated assets increased by 18.13%, from 36.176 billion in December 2007 to 42.735 billion in October 2008, due to the following:

a. Cash & Cash Equivalents was at 9.802 billion, down by 26.23% from year-end 2007 level of 13.288 billion. This was mainly attributable to the ₱4.43 billion additional or new investments in associates. The remaining changes in cash position were the result of interest bearing advances made to related parties and spendings in capital expenditures.

b. Trade & Other Receivables increased by 81.12%, from 1.661 billion to 3.008 billion due to interest bearing advances made to related parties.

c. Other Current Assets increased by 68.45%, to ₱530 million from 315 million due to input VAT arising from construction in progress as well as higher taxes withheld.

d. Property, plant and equipment increased by 39.30% from 4.101 billion (as restated) in 2007 to 5.713 billion mainly due to the consolidation of the plant and equipment of Hedcor Sibulan, which is currently undertaking the construction of a 42.5MW hydropower project in Davao del Sur, into PHC.

e. Intangible assets increased by ₱180.5 million or 27.26% primarily due to new capital expenditures by SEZ and MEZ which were booked as intangible assets following their adoption of IFRIC 12.

f. Investments and Advances increased by 45.53% due to additional or new investments in associates as follows:

   (i) 3.48 billion for additional equity into MORE, which was in turn invested into the acquisition of the Ambuklao-Binga hydropower complex.

   (ii) 278 million in both equity and advances for RP Energy

g. Decrease of 58.39% in available for sale investments deemed to have decreased in value.

h. Deferred tax assets increased by 59.53% 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.

i. Other Noncurrent Assets is increased by 1,341%, from 69.6 million to 1.003 billion due to advances made to Global Power amounting to P921.6 million for the construction and operation of 3x82MW coal-fired plant in Toledo City, Cebu.

   CEDC, the project company for the 3X82MW coal plant was incorporated in December 2008, and advances to Global Power were subsequently transferred as advances to CEDC.

Liabilities

Consolidated liabilities increased by 35.25% compared to year-end 2007 level. The following were the reasons for the increase:

a) Bank loans increased by 24.54% or 820 million 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) Income tax payable was up 141.42% due to higher income tax provision recorded during the period under review.

c) Long-term debt increased by 229% or by 1.874 billion versus year-end 2007 level. This is due to Hedcor Sibulan's availment of of ₱1.7 billion long-term debt to finance the construction of its 42.5MW hydropower project and SEZ's and Hedcor's refinancing of their respective long-term debts.

d) An increase in customer's deposit of 11.21 % or 154 million was mainly due to new connections in the franchise areas of CLPC, DLPC and SEZ

e) Pension liability increased by 53.8% as a result of pension obligations of AP parent and PHC.

f) Deferred Income Tax Liability increased by 112% due to unrealized forex gains on dollar advances to a subsidiary.

Equity

Equity attributable to equity holders of the parent increased by 12.94% from 26.740 billion as of December 2007 to 30.201 billion as of October 2008. This was mainly due to consolidated net income of 3.64 billion, an upward adjustment in share in cumulative translation adjustments of associates of 1.3 billion and cash dividend payment of 1.32 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 Registrant

As of October 31, 2008, the group's cash reserves posted a balance of 9.802 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 1.020 billion compared to the net cash inflow of 2.644 billion for the same period last year. This is due to the decrease in current assets resulting from interest bearing advances made to related parties.

Net cash used in investing activities was 5.202 billion compared to 5.655 billion for the same period last year. Out of the amounts used, 3.779 billion is accounted for by additional or new investments, acquisitions of and or capital expenditures for property, plant and equipment of 2.00 billion. These outflows were met partially through interest received in the amount of 520 million, dividends received from associates in the amount of 1.450 billion and collections of advances from affiliates.

Net cash from financing activities for the period in review was 348.8 million, which was mainly the net result of inflows of long-term debt in the amount of 1.864 billion and other short-term loans and slightly offset by cash outflows for the 1.325 billion dividend payout in the first quarter of 2008.

The Company finished the ten months of the year with net cash outflows of 3.832 billion. The cash and cash equivalents of ₱9.802 billion for the period ending October 31, 2008 was 2.914 billion lower than the cash and cash equivalent held a year ago at 12.715 billion. This is consistent with management's plan of deploying cash raised in the Company's 2007 IPO to improve its generation and distribution facilities, acquire existing power facilities and develop greenfield projects.

Financial Ratios

Current ratio decreased by 0.63, from 2.52x as of December 2007 to 1.89x in October 2008. This was due to the decrease in cash and cash equivalents used to fund investments and acquisitions.

Debt-to-equity ratio increased from 0.31 as of December 31, 2007 versus 0.38 as of October 31, 2008.

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 578MW, an 18% increase from end 2007 level. This capacity expansion was brought about by the turnover of the 175MW Ambuklao-Binga hydroelectric plants in July 2008. This is expected to further increase by 80% as the Tiwi-Makban geothermal plants are turned over this year.

- On November 28, 2007, 50% owned SNAP-Benguet submitted the highest bid for the 175MW Ambuklao-Binga hydroelectric power complex located in Benguet. The price offered amounted to US$325 million.

  Only the 100MW 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 120MW.

  The 75MW 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 105MW.

- On July 30, 2008, 100% owned APRI submitted the highest bid to the PSALM for the Tiwi-MakBan geothermal . Total generation capacity based on steam availability is estimated at 462MW. 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.

National Power Corporation (NPC), through PSALM, intends to reach its privatization level to at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas by end 2009.

The Company is also keen on participating in PSALM's public auction for the Independent Power Producers (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 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 42.5MW 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 Indsutriesfor 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% 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 27.5MW 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 e supply of 400,000,000 kWh per year to DLPC.

- The construction of the 300MW 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 Energy Regulatory Commission (ERC) has 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 is expected to commence on April 1, 2009.

The ERC will conduct public hearings prior to implementation of CLPC's resulting distribution rate structure. A final approved rate structure will be published on March 31, 2009. After communicating with its customers, CLPC will 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 report 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 and 2006 are as follows:

	Dec 31/2007	Dec 31/2006
EQUITY IN NET EARNINGS OF INVESTEES	2,790.0	1,061.9
EBITDA	5,530.6	2,883.2
CASH FLOW GENERATED:		
Net cash provided by operating activities	3,509.5	749.1
Net cash provided by (used in) investing activities	(9,015.1)	1,007.4
Net cash used in financing activities	17,397.8	(1,239.9)
Net Increase in Cash & Cash Equivalents	11,892,.2	516.6
Cash & Cash Equivalent, Beginning	1,494.3	985.2
Cash & Cash Equivalent, End	13,287.8	1,494.3
CURRENT RATIO	2.54	3.27
DEBT-TO-EQUITY RATIO	0.31	0.41

Note: Except for the financial ratios, values for the above table are in Million Pesos.

Above key performance indicators exceeded management expectations.

Earnings contributions of recently acquired power assets accounted for the increase in equity in net earnings of investees. Income contributions generated by MORE, STEAG Power and EAUC offset the decline in LHC's earnings. The decline in LHC's was foreseen as capacity fee rates were already known to be lower during the period 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 is 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 92% 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 the 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 compared to year ended December 31, 2006

Results of Operations

AP reported a consolidated net income of ₱4.14 billion for the year 2007, a hefty 124% increase over the 2006 net income of ₱1.85 billion. Earnings per share improved to ₱0.66 from ₱0.37 for the comparative period in review.

The power generation business contributed ₱2.51 billion to the 2007 net earnings, recording an increase of 203% from last year's ₱829 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% of the 360MW Magat hydropower plant, 60% of the 70MW thermal power plant owned and operated by CPPC, 50% of the 50MW thermal power plant owned and operated by EAUC and 34% of the 232MW coal-fired plant owned and operated by STEAG Power. The four facilities started contributing to AP's results in the second half of 2007 only.

The power distribution business, as a whole, contributed ₱1.5 billion, up 52% year-on-year from ₱995 million. This was at the back of electricity sales growth of 11% year-on-year by all subsidiaries and associates, from 2,507 GWh in 2006 to 2,790GWh in 2007.The increase in the income contribution of the power distribution business was also due to an improvement in the gross profit per kilowatt-hour (kWh).

Material Changes in Line Items of AP’s Income Statement

Consolidated net income attributable to equity holders increased by 124% due to the following:

a. *Gross profit* at yearend 2007 registered at ₱1.95 billion, up by 56% or an increase of ₱699 million over the gross profit the previous year. Consolidated revenues grew by 30% to ₱11.31 billion while costs and expenses were up by 26% to ₱9.36 billion from ₱7.43 billion.

   Fresh contribution from CPPC accounted for 52% of the increase in gross profit. AP’s generation companies as a group accounted for 60% of the total consolidated gross profit while the distribution group supplied the remaining 40%.

   The power distribution subsidiaries finished the year with an increase of 11% in consolidated revenues, mainly due to higher kWh sold that grew by 26% year-on-year. The power generation group's consolidated revenues, on the other hand, recorded a spectacular 244% year-on-year increase, 67% of which came from CPPC.

   Costs and expenses were composed mainly of generated power and purchased power cost. The generated power cost component increased by 189% during the period due to the consolidation of CPPC. Purchased power cost also increased by 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 163% 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.

   Meanwhile, 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% due to higher placements coming from initial public offering (IPO) proceeds of AP parent. Interest expense dropped by 10% due to a decline in interest rates. 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% of the debts had fixed rates ranging from 8.78% to 9.5%. As of December 31, 2006, 56% of the Group's long-term debt had floating interest rates ranging from 7.48% to 9.23%, and 44% had fixed rates ranging from 8.78% to 11.2%.

d. *Other Income* decreased by ₱119 million or 110% mainly due to higher foreign exchange loss recorded at AP Parent and PHC.

As a result of the foregoing, income before income tax increased by 114% year-on-year. Correspondingly, provision for income tax increased by 57% as a result of higher taxable income reported by the AP Group.

Material Changes in AP's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2006 levels, AP posted a superb 193% increment in consolidated assets, from ₱12.34 billion in December 2006 to ₱36.16 billion in December 2007, due to the following:

a. *Cash & Cash Equivalents* was at ₱13.28 billion, up by 789% 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%, from ₱2.60 billion to ₱1.66 billion. This is mainly due to the payment by AEV of its advances from AP.

c. *Inventories* were higher by 72%, from ₱217 million to ₱375 million. Current balance includes the ₱88 million inventories 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 112% to P348 million from ₱164 million, 76% of which came from newly acquired CPPC while the balance represents net input vat at PHC.

e. *Property, plant and equipment* increased by 34%, ₱4.43 billion versus ₱3.31 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 and Advances* increased by 249%, from ₱4.27 billion in December 2006 to ₱14.89 billion in December 2007. Acquisitions made during the period 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 ₱2.37 billion, net of the ₱415 million cash dividends received.

g. AP recorded an increase in *Goodwill* of 352%, from ₱220 million to ₱996 million. This was mainly goodwill of newly acquired utilities BEZ and MEZ.

h. *Deferred Income Tax Asset* increased by ₱51 million, attributable mainly to deferred tax on unrealized foreign exchange loss of the subsidiaries' advances to AP.

i. *Other Noncurrent Assets* were up by 105%, from ₱34 million to ₱70 million. This was principally due to SEZ's prepaid rent to SBMA.

Liabilities

Consolidated bank loans and long-term liabilities increased by 249%, or ₱4.18 billion, compared to 2006 year-end level. The significant increase is mainly due to the ₱3.34 billion AP Parent short-term bank loan that arose out of the STEAG Power acquisition.

Trade and other payables were up 132%, ₱2.69 billion versus ₱1.16 billion, mainly attributable to subsidiaries' advances to AP Parent.

Customers' deposits grew by 22% 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% principally due to higher income tax provision recorded during the period under review.

Equity

Equity attributable to equity holders of the AP Parent grew by 212%, from ₱8.67 billion as of December 2006 to ₱27.02 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 113% to ₱7.8 billion against ₱3.68 billion in 2006. This was brought about mainly by the ₱4.14 billion net income recorded for the year 2007.
The ₱737 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 Cumulative Translation Adjustments account.

A reduction to stockholder's equity of ₱109 million represents excess of purchase price over carrying value of SEZ as a result of the acquisition by AP of the minority shares of AEV, SFELAPCO and Team Philippines.

Financial Ratios

Current assets increased by ₱11.2 billion, largely due to higher cash and cash equivalents arising out of the capital raising activities of AP. This more than offset the ₱4.8 billion increase in current liabilities resulting from additional debt incurred by AP in its acquisition of EAUC and STEAG Power.

However, the resultant current ratio is lower by 0.73, from 3.27:1 as of year-end 2006 to 2.54:1 as of December 2007. Both debt-to-equity and net debt-to-equity ratios, on the other hand, improved in comparison to last year's figures, from 0.41:1 and -0.24:1 as of December 31, 2006 to 0.31:1 and –0.29:1:1 as of 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.

Cash generated from operating activities increased by 368%, from ₱749 million as of December 31, 2006 to ₱3.51 billion in the current year. 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 ₱9.0 billion versus ₱1.0 billion 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 provided by financing activities for the period in review was at ₱17.4 billion as opposed to negative ₱1.2 billion in 2006. The ₱18.6 billion increase is primarily a capital infusion by AP's parent 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, AP as a group ended the year 2007 with net cash inflows exceeding the cash outflows resulting to an increase in cash and cash equivalents of ₱11.89 billion, from ₱1.49 billion in 2006 to ₱13.29 billion in the period under review.

Key Performance Indicators for 2006 and 2005 are as follows:

	Dec 31/2006	Dec 31/2005
EQUITY IN NET EARNINGS OF INVESTEES	1,061.9	1,202.3
EBITDA	2,883.2	3,184.4
CASH FLOW GENERATED:		
Net cash provided by operating activities	749.1	1,219.6
Net cash provided by (used in) investing activities	1,007.4	405.4
Net cash used in financing activities	(1,239.9)	(1,193.3)
Net Increase in Cash & Cash Equivalents	516.6	431.7
Cash & Cash Equivalent, Beginning	985.2	553.5
Cash & Cash Equivalent, End	1,494.3	985.2
CURRENT RATIO	3.27	2.40
DEBT-TO-EQUITY RATIO	0.41	.47

Note: Except for the financial ratios, values for the above table are in Million Pesos.

All the key performance indicators were well within expected levels during the year under review. The decrease in equity earnings was anticipated due to the drop in earnings of LHC in 2006 versus 2005 as a result of lower revenues brought about by the decline in capacity fee rates as stipulated in its contract with NPC.

Despite the challenging economic environment, the group has consistently managed its cash flows and operations effectively, generating positive cash inflows and registering robust financial ratios.

Year ended December 31, 2006 compared to year ended December 31, 2005

Operating revenues

Operating revenues increased by 7.8% to P 8,681.0 million in 2006 from ₱8,052.6 million in 2005. This was due to increases in revenues from the distribution of power by DLPC, CLPC and SEZ, an increase in Hedcor's power generation revenues and increases in AESI's revenues from services provided to customers.

- Revenues from power distribution sales increase by 6.4% to ₱7,915.4 million in 2006 from ₱7,438.1 million in 2005. This was principally due to an increase in the amount of kWh of electricity sold by DLPC, CLPC and SEZ to their customers during 2006 compared to 2005.

- Revenues from power generation increased by 30.4% to ₱701.3 million in 2006 from ₱538.0 million in 2005. This was principally due to an increase in kWh of power generated by Hedcor in 2006, which reflected a high level of rainfall and extended rainy season experienced during 2006, as well as the full-year operation, at full capacity, of the Lower Talomo mini-hydroelectric plants that were acquired by Hedcor from PSALM in January 2005. During 2005, the Lower Talomo plants did not operate at full capacity due to rehabilitation works performed on the plants by Hedcor from July 2005 to January 2006.

- Revenues from services increased by 17.2% to ₱57.0 million in 2006 from ₱48.6 million in 2005. This was principally due to an increase in the amount of power factor discounts billed by AESI to its customers during 2006.

- Technical, management and other service fees decreased to ₱7.3 million in 2006 from ₱27.9 million in 2005. This was principally due to a decline in the amount of technical fees billed during 2006 to SFELAPCO and Okeelanta.

Operating expenses

Operating expenses increased by 12.0% to ₱7,428.7 million in 2006 from ₱6,634.7 million in 2005.

- Expenses for purchased power increased by 8.9% to ₱5,679.8 million in 2006 from ₱5,217.3 million in 2005. This was principally due to higher generation costs billed to DLPC, CLPC and SEZ by NPC and other IPPs, which corresponded to the increase in the amount of kWh of electricity purchased during 2006, as well as higher fuel costs and transmission charges paid by DLPC, CLPC and SEZ during 2006 compared to 2005.

- General and administrative expenses decreased by 31.0% to ₱957.3 million in 2006 from ₱731.1 million in 2005. The following material components of general and administrative expenses increased in 2006 compared to 2005.

    - Management fees increased to ₱409.2 million in 2006 from ₱147.0 million in 2005. This was due to an increase in the management fees paid to AEV by DLPC, CLPC and Hedcor during 2006 compared to 2005 as a result of the increase in DLPC's and CLPC's revenues and in Hedcor's profit before income tax.

    - Professional fees increased to ₱40.1 million in 2006 from ₱32.0 million in 2005. This was principally due to an increase on legal and audit fees paid by the Company during 2006.

    - Personnel expenses increased to ₱156.8 million in 2006 from ₱136.9 million in 2005. This was principally due to mandatory salary increases required under DLPC's and CLPC's collective CBAs with their respective employees.

- Expenses for outside services increased to ₱76.9 million in 2006 from ₱60.8 million in 2005. This was principally due to an increase in line-clearing and anti-pilferage program expenses incurred by DLPC, CLPC and SEZ during 2006, the services for which were contracted out to third-party service providers.

- Repair and maintenance expenses increased to ₱44.8 million in 2006 from ₱26.3 million in 2005. This was principally due to the implementation during 2006 of a new accounting standard which required the Company to record as expenses amounts used for repair and maintenance which previously had been capitalized and depreciated.

- Communications expenses increased to ₱11.5 million in 2006 from ₱9.8 million in 2005. This was due to an increase in information technology support services relating to Hedcor's Internet connectivity that was billed during 2006.

These increases were offset by decreases in the following material components of general and administrative expenses.

- Taxes and licenses decreased to ₱61.7 million in 2006 from ₱168.8 million in 2005. This was principally due to full-year impact of the replacement in November 2005 of the national franchise tax that had been previously been collected by the Government from DLPC, CLPC and SEZ with the VAT. DLPC, CLPC and SEZ continued to be liable for franchise taxes charged by local government units.

- Other general and administrative expenses decreased to ₱16.5 million in 2006 from ₱22.2 million in 2005. This was principally due to lower expenses incurred during 2006 relating to the Company's adoption of an ORACLE-based enterprise resource planning system, which was first rolled out in 2004.

- Depreciation and amortization increased by 11.8% to ₱451.1 million in 2006 from ₱403.5 million in 2005. This was principally due to the full year effect in 2006 of depreciating the Lower Talomo plant assets which Hedcor acquired during the second half of 2005. In addition, for DLPC, CLPC and SEZ, the decrease in depreciation expenses relating to poles, wires and transformers due to longer estimated service life of these assets was offset by the increase in depreciation expenses for office and transportation equipment, the estimated services lives of which were reduced.

- O&M expenses increased by 10.9% to ₱223.5 million in 2006 from ₱201.5 million in 2005. This was principally due to an increase in personnel costs of ₱152.0 million in 2006 from ₱132.9 million in 2005 resulting from salary increases to DLPC's and CLPC's O&M personnel mandated by the terms of DLPC's and CLPC's CBAs with their employees. In addition, fuel and lube oil expenses increased to ₱25.3 million in 2006 from ₱18.3 million in 2005 resulting from higher fuel costs in 2006 compared to 2005, as well as from the increase in the usage of DLPC's back-up plant during 2006. These increases offset a decline in repair and maintenance costs to ₱25.6 million in 2006 from ₱31.6 million in 2005 as 2005 saw scheduled repair and maintenance works performed on DLPC's back-up plant that were not required to be performed in 2006.

- Expenses for generated power increased by 38.2% to ₱107.7 million in 2006 from ₱78.0 million in 2005. This was principally due to an increase in repairs and maintenance expenses to ₱52.3 million in 2006 from ₱30.0 million in 2005 resulting from increases in line repair costs incurred during 2006. Salaries and benefits to employees operating Hedcor's generation facilities increased to ₱46.0 million in 2006 from ₱38.4 million in 2005 as Hedcor provided its employees with a one-time payment during 2006 that was tied to the extension of the CBA between Hedcor and its employees. In addition, Hedcor's total number of employees also increased during 2006 in order to fully operate the Lower Talomo plant acquired in January 2005.

- Expenses for services increased to ₱9.1 million in 2006 from ₱3.3 million in 2005 in line with the increase in AESI's revenues during 2006.

Financial income (expenses)

Interest expense declined by 17.1% to ₱200.1 million in 2006 from ₱241.5 million in 2005. This was principally due to lower interest rates on Hedcor's indebtedness during 2006 as compared to 2005, as well as to decline in the Company's outstanding bank loans and long-term indebtedness in 2006.

Interest income increased by 106.7% to ₱53.0 million in 2006 from ₱25.6 million in 2005. This was principally due to an increase in the Company's cash balances during 2006.

Other income (expenses)

Other income declined to ₱1,170.2 million in 2006 from ₱1,363.0 million in 2005. The Company's share in the net earnings of its affiliates decreased by 11.7% to ₱1,062.0 million in 2006 from ₱1,202.3 million in 2005. This was principally due to a decline in LHC's net income during 2006, which offset increases in the net income of VECO, SFELAPCO, WMPC and SPPC.

- LHC's gross revenues declined to ₱2,003.8 million in 2006 from ₱2,455.6 million in 2005. This was principally due to a reduction in the allowable downtime permitted under the Bakun PPA that LHC was able to collect from NPC during 2006, as well as a reduction in the capacity fee rate paid by NPC to LHC under the terms of the Bakun PPA. During the same period, its net income declined to ₱1,310.3 million in 2006 from ₱1,611.8 million in 2005. This was principally due to the decline in the allowable downtime permitted under the Bakun PPA that LHC was paid for during 2006 compared to 2005. In 2005, LHC availed of an additional 30 downtime days in accordance with the terms of the Bakun PPA for which LHC was paid despite the fact that the Bakun plant had been shut down for extended repairs and maintenance. The downtime was also required for the completion of the project to divert a portion of the water flow of the Kayapa Creek into the Bakun plant. In addition, during 2006 LHC recognized a provision for the full amount of the final award granted by an arbitral tribunal against LHC and in favor of the turn-key contractor for the Bakun plant. As a result, the Company's share in LHC's net earnings declined to ₱655.1 million in 2006 from ₱805.9 million in 2005.

- VECO's gross revenues declined to ₱8,330.7 million in 2006 from ₱8,678.7 million in 2005. This was principally due to generation charges and additional transmission charges collectible from customers that had not yet been billed as of December 31, 2006. Notwithstanding this decline in gross revenues, VECO's net income increased to ₱423.0 million in 2006 from ₱296.4 million in 2005. This was principally due to lower personnel and separation pay expenses paid during 2006, after the completion of VECO's voluntary retirement program in 2005. Further, in November 2005 the national franchise tax previously collected by the Government from VECO was replaced with the VAT, which reduced the amount spent by VECO in 2006 on taxes and licenses. As a result, the Company's share in VECO's net earnings increased to ₱230.2 million in 2006 from ₱158.0 million in 2005.

- WMPC's gross revenues decreased to ₱1,390.3 million in 2006 from ₱1,423.9 million in 2005. This was principally due to the appreciation of the peso against the U.S. dollar during 2006, which reduced the peso equivalent of the U.S. dollar-denominated fees paid by NPC to WMPC, despite the increase in WMPC's revenues in U.S. dollar terms. During the same period, its net income increased to ₱484.9 million in 2006 from ₱319.1 million in 2005. This was principally due to a reduction in WMPC's direct costs during 2006 compared to 2005. As a result, the Company's share in WMPC's net earnings increased to ₱96.1 million in 2006 from ₱63.7 million in 2005.

- SFELAPCO's gross revenues increased to ₱2,635.0 million in 2006 from ₱2,336.1 million in 2005. This was principally due to the full-year effect during 2006 of an increase in SFELAPCO's franchise area during 2005, which resulted in an increase in the number of SFELAPCO's customers and in the volume of electricity it sold. As a result, SFELAPCO's net income increased to ₱94.4 million in 2006 from ₱74.6 million in 2005. The Company's share in SFELAPCO's net earnings increased to ₱41.2 million in 2006 from ₱32.4 million in 2005.

- SPPC's gross revenues decreased to ₱786.1 million in 2006 from ₱815.5 million in 2005. This was principally due to the appreciation of the peso against the U.S. dollar during 2006, which reduced the peso equivalent of the U.S. dollar-denominated fees paid by NPC to SPPC, despite the increase in SPPC's revenues in U.S. dollar terms. During the same period, its net income increased to ₱193.8 million in 2006 from ₱130.5 million in 2005. This was principally due to a reduction in SPPC's direct costs during 2006 compared to 2005. As a result, the Company's share in SPPC's net earnings increased to ₱37.9 million in 2006 from ₱26.1 million in 2005. Further, in 2005 SPPC exercised its right under the Energy Conversion Agreement dated October 26, 1996 between NPC and SPPC (the "SPPC ECA") to nominate up to 110% of the nominal capacity the SPPC Plant. However, as of the date of this Prospectus NPC has refused to pay for the additional 5MWof nominated capacity. As of December 2006, the amount unpaid by NPC under the terms of the SPPC ECA totaled U.S.$2.3 million and ₱20.0 million.

In addition, the Company's other income declined to ₱108.2 million in 2006 from ₱160.7 million in 2005. This was due to the discontinuance in 2006 of DLPC's billings to VECO for the reimbursement of salaries of DLPC employees who were seconded to VECO in order to provide training for VECO personnel. In addition, during 2005 Hedcor recorded foreign exchange gains on U.S. dollar-denominated advances that were repaid by Hedcor during the fourth quarter of 2005.

Income before gain on sale of investments and income tax

As a result of the foregoing, income before gain on the sale of investments and income tax decreased by 11.3% to ₱2,275.3 million in 2006 from ₱2,565.0 million in 2005.

Non-recurring gain on the sale of investments

In 2005, the Company recorded a one-time gain of ₱307.6 million from the sale by DLPC, CLPC and Hedcor of their shares in AEV.

Provision for income tax

The Company's provision for income tax increased marginally to ₱405.1 million in 2006 from ₱404.2 million in 2005 due to the increase in the Company's taxable income in 2006 compared to 2005.

Net income

As a result of the foregoing, the Company's consolidated net income attributable to equity holders, including any gain on the sale of investments, declined by 24.3% to ₱1,849.6 million in 2006 from ₱2,443.8 million in 2005. Excluding the non-recurring gain in 2005 of ₱307.6 million, the Company's net income would have decreased by 13.4% during 2006.

Material Changes in AP's Resources, Liabilities and Shareholders Equity

Assets

Compared to year-end 2005 levels, consolidated assets increased by 7%, from ₱11.5 billion in 2005 to ₱12.3 billion in 2006 due to the following:

a. *Cash & Cash Equivalents* went up by 52% (₱1.49 billion versus ₱985 million) mainly due to higher cash dividends received from associates.

b. *Trade and Other Receivables* went up by 39% (₱2.60 billion versus ₱1.87 billion) largely due to additional advances made to parent company AEV.

c. *Inventories* grew by 13% (₱217 million versus ₱192 million) due to higher materials inventory carried by SEZC at end of 2006 to be used in future CAPEX projects.

d. *Other Current Assets* increased by 117% (₱164 million versus ₱76 million) substantially due to build up of unutilized VAT input by PHC and higher prepaid rent of SEZC.

e. *Property, Plant & Equipment* increased by 13% (₱3.30 billion versus ₱2.93 billion) mainly attributed to CAPEX projects by the group's power distribution utilities for the rehabilitation and maintenance of its distribution assets as well as for expansion projects.

The above increases were partially offset by the decrease in Investments and Advances from ₱5.17 billion in 2005 to ₱4.27 billion in 2006 as a result of higher dividends received from associates in 2006. The resulting decrease in the carrying values of investments was also due to a lower share in cumulative translation adjustments of associates.

Liabilities

Consolidated bank loans and long-term debt decreased by 23%, or ₱365 million, compared to 2005 year-end level. This is mainly due to prepayment of debt. PHC was able to trim down its debt by ₱253 million in 2006.

Trade and other payables increased by 21% (₱1.16 billion in 2006 versus ₱956 million). This is attributed to an increase in the Group's payables on the power purchased by the distribution utilities.

Customers' deposits grew by 11% due to the increase in the distribution utilities' customer base and adjustments in required amounts of deposits to comply with Magna Carta and DSOAR.

The 19% increase in pension liability is attributable to the lower discounting rates used in computing the present value of accrued pension benefits payable of the group.

Equity

Equity attributable to equity holders of the parent increased by 12%, from ₱7.78 billion in 2005 to ₱8.67 billion in 2006, substantially due to the growth in retained earnings. This increase was partially offset by the decrease in the Group's share in the cumulative translation adjustments of its associates.
In 2006 the group generated ₱1.85 billion in net income, which resulted to a 35% over-all increase in retained earnings, despite a ₱896 million cash dividend distribution.

The 71% decline in share in cumulative translation adjustments of associates was due to the further appreciation of the Philippine Peso in December 2006, from ₱53.06 as of December 31, 2005 to ₱49.05 as of end of current year. The power generating associates, which adopt the US dollar functional currency financial reporting, recorded substantial foreign exchange adjustments in generating their December 2006 financial statements under the peso presentation currency. These foreign exchange adjustments are booked under Cumulative Translation Adjustments account.

Financial Ratios

The 43% increase in current assets attributed to higher cash and receivables, accounted for the improvement in current ratio, from 2.40:1 as of year-end 2005 to 3.27:1 as of December 2006. Likewise, net debt-to-equity decreased from -0.03:1 as of December 2005 to -0.24:1 as of December 2006 while debt-to-equity ratio stood at 0.41:1.

Material Changes in Liquidity and Cash Reserves of AP

Consolidated cash generated from operating activities decreased by 32%, from ₱1.22 billion in 2005 to ₱826 million in 2006. As compared to last year, operating income was lower in 2006, while receivables increased due to additional advances made to AEV.

Net cash generated from investing activities jumped 130%, mainly due to higher cash dividends received from associates/affiliates.

For 2006, net cash inflows were higher than cash outflows, resulting to a 52% increase in cash and cash equivalents, from ₱985 million in December 2005 to ₱1.49 billion in December 2006.

Item 7. Information on Independent Accountant and other Related Matters

External Audit Fees and Services

The external audit and consultancy fees for the years 2008 and 2007 were as follows:

	Year ended December 31, 2008	Year ended December 31, 2007
Audit Fees (Incurred by Registrant)	–	₱15,498.88
Audit-Related Fees	-	-
Tax Fees	-	-
Consultancy Fees	-	
Total	–	₱15,498.88

Note: Values for the above table are in Thousand Pesos.

Of the total audit fees incurred in 2007, approximately ₱14.4 million was incurred AP in connection with the initial public offering of its common shares in July 2007.

As a policy, the Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre–approves audit plans, scope and frequency before the audit is conducted.

Audit services of external auditors for 2007 were pre–approved by the Audit Committee. The Committee had also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The accounting firm of Sycip, Gorres, Velayo & Company (SGV) has been AP's Independent Public Accountant for the last twelve (12) years. Mr. Ladislao Z. Avila, Jr. is the current audit partner of AP and has served as such since 2004. Representatives of SGV will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed.

There was no event in the past eleven (11) years where AP and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

PART III – 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 in the annual Corporate Governance Scorecard Survey of the Securities and Exchange Commission and the Philippine Stock Exchange to benchmarks 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 corporate goals. The different Board committees, namely, the Audit, Compensation, Nomination and Investor Relations, 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 report.

The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and responsive to the needs of the organization.

Board Attendance

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investments, and achieve disciplined and sustainable growth.

In 2008, the Board held seven (7) regular and special meetings. Below is a summary of the attendance of the Directors:

DIRECTORS	SPECIAL AND REGULAR BOARD MEETINGS 2008						
	06-Feb	26-Mar	19-May	23-Jul	14-Aug	19-Aug	20-Nov
Jon Ramon Aboitiz	Present	Present	Present	Present	Absent	Present	Present
Erramon I. Aboitiz	Present	Present	Present	Present	Absent	Present	Present
Ernesto R. Aboitiz	Present	Absent	Absent	Absent	Present	Present	Present
Antonio R. Moraza	Present	Present	Absent	Present	Present	Present	Absent
Mikel A. Aboitiz	Present	Present	Present	Absent	Present	Present	Present
Juan Antonio E. Bernad	Present	Present	Present	Present	Absent	Present	Present
Luis Alfonso Y. Aboitiz (Director up to 5-18-08)	Absent	Absent	-	-	-	-	-
Pablo V. Malixi (Independent Director up to 5-19-08)	Present	Absent	Absent	-	-	-	-
Manuel S. Go (Independent Director up to 5-19-08)	Present	Absent	Absent	-	-	-	-
Jose R. Facundo (elected 5-19-08 as Independent Director)	-	-	-	Present	Present	Present	Present
Romeo L. Bernardo (elected 5-19-08 as Independent Director)	-	-	-	Present	Present	Present	Present
Total No. of Directors Present	8	6	5	7	8	8	7

ANNEX "A"

SUMMARY OF THE MINUTES OF THE 2007 AP ANNUAL STOCKHOLDERS' MEETING

The meeting was called to order on May 19, 2008 at 11:00 a.m. by the Chairman of the Board, Mr. Jon Ramon Aboitiz.

The Corporate Secretary certified to the existence of a quorum, there being present a majority of the outstanding capital stock of the Corporation in person or by proxy.

Upon motion duly made and seconded, the minutes of the joint special meeting of the Board of Directors and stockholders last 16 January 2007 was approved.

The body passed the following resolutions:

1. Ratification and approval of all the acts of the Board of Directors and the Officers in general in the exercise of their duties for the past year
2. Appointment of Sycip, Gorres, Velayo & Co. as External Auditor of the Corporation for the year 2008-2009;
3. Election of Messrs. Jon Ramon Aboitiz, Ernesto R. Aboitiz, Mikel A. Aboitiz, Antonio R. Moraza, Erramon I. Aboitiz, Juan Antonio E. Bernad, Jose R. Facundo and Romeo L. Bernardo as members of the Board of Directors. Messrs. Facundo and Bernardo are the Corporation's independent directors.
4. Approval of the Directors' compensation and per diem for 2008.

After the approval of such Resolutions, the meeting was duly adjourned.