

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. M. JASMINE S. OPORTO

Contact Person

032-411-1804

Company Telephone Number

1 2 3 1

Month Day

Fiscal Year

3rd Quarterly Report

1 7 - Q

FORM TYPE

3rd Monday of May

0 5 1 7

Month Day

Annual Meeting

Secondary License Type, if Applicable

S E C

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

x

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2010
2. Commission identification number C199800134 3. BIR Tax Identification No. 200-652-460

4. Exact name of issuer as specified in its charter

ABOITIZ POWER CORPORATION

5. Province, country or other jurisdiction of incorporation or organization

Cebu City, Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code

Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City, Philippines 6000

8. Issuer's telephone number, including area code (032) 411-1800

9. Former name, former address and former fiscal year, if changed since last report N.A.

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Common Stock P1 Par Value</u>	<u>7,358,604,307</u>
<u>Amount of Debt Outstanding</u>	<u>P74,812,188,000</u>

11. Are any or all of the securities listed on a Stock Exchange?

Yes [] No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

Common

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [] No []

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [] No []

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the financial statements and schedules attached herewith.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report.

Top Five Key Performance Indicators

Management uses the following indicators to evaluate the performance of registrant Aboitiz Power Corporation ("AP" or the "Company") and its subsidiaries (the Company and its subsidiaries are hereinafter collectively referred to as the "Group"):

1. **Share in Net Earnings of Associates.** Share in net earnings (losses) of associates represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, 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 profitability of the investment and investees' contribution to the group's net income.

Manner of Computation: Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. 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 capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.
4. **Current Ratio.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by 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.** Debt-to-Equity ratio 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 nine (9) months of 2010 and 2009 and as of December 31, 2009:

Amounts in thousands except for financial ratios

	September 30,2010	September 30,2009	DEC. 31/2009
SHARE IN NET EARNINGS OF ASSOCIATES	2,539,385	1,766,414	
EBITDA	25,158,545	5,865,553	
CASH FLOW GENERATED:			
Net cash flows from operating activities	19,484,045	3,967,128	
Net cash flows used in investing activities	(3,784,906)	(22,898,067)	
Net cash flows from (used in) financing activities	(9,432,065)	9,553,023	
Net Increase (Decrease) in Cash & Cash Equivalents	6,267,074	(9,377,916)	
Cash & Cash Equivalents, Beginning	3,814,906	14,333,676	
Cash & Cash Equivalents, End	10,293,017	4,890,927	
CURRENT RATIO	1.44		0.68
DEBT-TO-EQUITY RATIO	1.46		2.18

Share in Net Earnings of Associates has become a significant contributor to the robust bottom line of the Company for the nine months ending September 30, 2010 as it manages to contribute 44% more than it did in the first nine months of 2009. The largest contributing companies were SN Aboitiz Power-Magat, Inc. (SNAP-Magat) and SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet), both of which benefitted from a fresh inflow of revenues from their respective ancillary service contracts with National Grid Corporation of the Philippines (NGCP). Both companies also saw a marked improvement on its average selling prices to the electricity spot market which further improved its revenues for the year. There were also new contributions this period from 26% owned Cebu Energy Development Corporation (CEDC) which started operations this year. From the distribution segment, Visayan Electric Company, Inc.'s (VECO) continued growth in its sales of electricity on the back of higher demand from its industrial, commercial and residential customers, as well as the additional margins brought about by a rate adjustment in the second half of 2009 under the return on rate base (RORB) regime and another

adjustment in August of this year under the performance based rate setting (PBR) scheme, allowed VECO to increase its share to the Company's Net Earnings of Associates. All the above positive contributions managed to offset a one-time refinancing cost of P398 million incurred by STEAG State Power, Inc. (STEAG), operator of a 232 megawatt (MW) coal plant in Misamis Oriental.

Compared to 2009, the Company's Current Ratio managed to increase to 1.44x versus 0.68x due to a marked increase in Current Assets. Current Assets increased due to higher cash balances owing to healthy cash flows from the various subsidiaries. Further increasing Current Assets is an increase in Trade and Other accounts receivables due to higher volumes of energy sold at better margins as well as new Trade Receivables recognized at Therma Marine, Inc. (Therma Marine) and Hedcor Sibulan, Inc. (Hedcor Sibulan) which started operating this year.

As expected, the take up of the period's net income improved the Company's Debt to Equity ratio for the first three quarters of 2010.

Financial Results of Operations

For the nine months of 2010, the Company managed to record a Net Income of P18.61 billion, which, compared to the same period last year of P3.86 billion, translates to an increase of 383%. This likewise increased Earnings Per Share from P0.52 per share in September 30 2009 to P2.52 per share as of September 30, 2010.

The rise of the power generation's income contribution by 516% or P18.29 billion allowed this segment to be the major contributor to the Company's bottom line, accounting for 94% of the Net Income for the period in review. The profit growth of this segment is largely due to: (a) new income contributions from generation assets which were acquired in 2009; (b) income contributions from new acquisitions this year; and, (c) the start of operations of greenfield projects in the first half of 2010. The contributions coming from the following events accounted for the significant contributions from the power generation segment:

- (a) Full nine months contribution of Aboitiz Power Renewables Inc. (APRI), the operator of the Tiwi-Makban geothermal facilities which were acquired in May 2009, compared to only four months for the same period in 2009;
- (b) Full nine months contributions of Therma Luzon, Inc. (Therma Luzon), which assumed dispatch control of the 700 MW Pagbilao coal fired plant in October 2009;
- (c) New contributions from Therma Marine following its take-over of two 100 MW power barges in the first quarter of this year;
- (d) The start of operations of the 26 MW Sibulan hydropower plant in March 2010; and
- (e) The start of operations of two 82 MW units of the coal fired plant owned by CEDC in February and May, 2010.

Total attributable sales of the distribution group grew by 9% on a year-to-date (YTD) basis. This segment continues to see robust growth from its industrial customer complemented by respectable growth from its residential and commercial accounts. Improved margins resulting from the shift to PBR for both VECO and Davao Light and Power Company Inc. (DLP) as well as the margins from VECO's rate increase under the RORB in the latter part of 2009 also provided additional increases to the distribution group's income contribution. These contributions came in despite the significant operating expenses

seen in the first half of this year due to the forced operation of a back-up power plant at DLP in Mindanao plus higher costs absorbed in two distribution utilities due to a lower systems loss cap mandated by ERC (from 9.5% to 8.5%) which took effect in January 2010. The distribution group contributed ₱1.24 billion this reporting period versus ₱1.11 billion last year or an increase of 11%.

1. INCOME STATEMENTS (January – September 2010 vs. January –September 2009)

Consolidated Net Income Attributable to Equity Holders of the Parent increased by 388% from ₱3.80 billion in the first nine months of 2009 to ₱18.54 billion for the same period in 2010. Below is a reconciliation of the increase in the Consolidated Net income Attributable to Equity Holders of the Parent:

Consolidated Net Income Attributable to Equity Holders of the Parent for the nine months of 2009	<u>3,795,422</u>
Increase in Operating Revenues	32,078,881
Increase in Operating Expenses	(14,976,089)
Increase in Share in Net Earnings of Associates	772,971
Decrease in Interest Income	(276,873)
Increase in Interest Expenses	(3,574,929)
Increase in Other Income	1,090,499
Higher Provision for Taxes	(355,954)
Increase in Minority Interests	<u>(15,552)</u>
Total	<u>14,742,954</u>
Consolidated Net Income Attributable to Equity Holders of the Parent for the nine months of 2010	<u>18,538,376</u>

Operating Revenues are up by 232% in the three quarters of 2010 versus that of 2009 mainly due to the following: (1) the nine month take up of revenues recognized from APRI's operations in 2010 versus only four months in 2009; (2) new operating revenues from the dispatch of the Pagbilao power plant by Therma Luzon, the newly acquired power barges of Therma Marine and the newly operational hydro plants of Hedcor Sibulan.

The operations of the newly acquired assets led to a 140% increase in Operating Expenses. The ₱14.98 billion increase is mainly attributable to the additional operating expenses taken up for the newly included operations of Therma Luzon's Pagbilao and Therma Marine's power barges, which were not yet turned over for the same period in review last year. The total operating expenses recognized for both companies YTD is ₱10.50 billion or 70% of total increase. The nine months take up of APRI's operating expenses for the period versus only four months in the previous year accounted for 18% of total variance. The remaining variance is mainly attributable to the running of back-up power plants by

AP's distribution utilities in Mindanao in the first two quarters of this year to mitigate the impact of the power shortfall in their respective franchise areas.

Share in Net Earnings of Associates contributed another ₱772.97 million, which represents a 44% increase compared to the first nine months of 2009. The largest contributing companies were SNAP-Magat and SNAP-Benguet, which benefitted from fresh inflow of revenues from their ancillary service contracts with NGCP for the period which were not yet in place for the same period last year. Both companies also saw marked improvement on the average selling prices to the electricity spot market. There were also new contributions this period from CEDC, which started operations of its coal plant this year. From the distribution segment, higher demand from its residential and industrial customers and additional margins brought about by rate adjustment in the second half of 2009 allowed VECO to increase its contributions to the Company's Net Earnings of Associates. All the above positive contributions managed to offset a one-time refinancing cost of ₱398 million incurred by STEAG in the third quarter.

Most of the first three quarters of 2009 saw Aboitiz Power Parent holding on to significant cash balances to fund its purchase of Tiwi-Makban and other acquisitions. The hefty cash position then allowed the Company to realize interest income in 2009. Following the deployment of cash into the various investing activities, 2010 saw the Company having to build its cash reserves from operating the newly acquired assets, hence, the lower interest income recognized during the period. Interest Income decreased by 74% from ₱375.97 million as of September 30, 2009 to ₱99.10 million as of September 30, 2010.

Interest expense for the three quarters of 2010 increased by ₱3.57 billion or 269% versus the same period in 2009 primarily due to the interest expense recognized by Therma Luzon for its Pagbilao IPP Administrator contract, which is accounted for as a finance lease. As a finance lease, incremental borrowing rates were used in order to recognize the asset and liability relating to the long-term obligation. Correspondingly, the discount determined at the inception of the IPP agreement is amortized and recognized as interest expense. Accreted interest recognized by Therma Luzon for the period was ₱3.81 billion.

Other Income (expenses) increased by 374%. The strengthening of the peso versus the dollar led to a decrease in the recognition of the dollar portion of the finance lease obligation of Therma Luzon to PSALM, hence, a recognition of a forex gain.

For the reporting period, the provision for income taxes increased by 103% due to deferred tax provisions recognized by Therma Luzon as well as new tax provisions taken up for newly consolidated company Therma Marine.

All of the above contributed to the fairly strong results for the three quarters of this year with the Company recognizing a Net Income of ₱18.61 billion versus ₱3.86 billion for the same period last year.

2. BALANCE SHEETS (September 2010 vs. December 2009)

Assets

Compared to year-end 2009 levels, consolidated assets increased by 13%, from ₱111.34 billion in December 2009 to ₱126.09 billion as of September 2010. The movements in balance sheet accounts are explained below:

- a. As of September 30, 2010, Cash & Cash Equivalents went up by 170% from ₱3.81 billion ending 2009 to ₱10.29 billion, an increase of ₱6.48 billion ending the third quarter of 2010. The higher cash balances are from the cash from operations built up at newly consolidated subsidiary, Therma Marine as well as cash from the operating activities realized by Therma Luzon. AP Parent meanwhile has built up its cash levels owing to healthy cash upstreamed from its subsidiaries.
- b. Trade & Other Receivables is up by 64% as a result of the following: (1) increase in Trade Receivables at Therma Luzon and APRI, which accounted for 63% of the increase of the group's Trade & Other Receivables, owing to higher sales volume as well as better spot market prices; (2) new Trade and Other Receivables consolidated into the group from Therma Marine and Hedcor Sibulan. Trade and Other Receivables as of end September 2010 was at ₱7.34 billion versus ₱4.48 billion as of end December 2009.
- c. Inventories increased by 64% due to the increase in coal inventories held at Therma Luzon as well as the take up of inventories at newly operating Therma Marine. The increase in Inventories held at both companies make up 93% of total inventory increase. Inventories at the end of September 2010 stand at ₱1.82 billion versus end 2009 of ₱1.11 billion.
- d. Input VAT built up at newly consolidated Therma Marine is the primary reason for the increase in Other Current Asset account from ₱512.68 million as of September 2009 to ₱1.055 billion as of September 2010.
- e. There was a minor increase in Property, Plant and Equipment of ₱1.10 billion or a 1.5% increase that is primarily due to the turnover of the two bunker-fired power barges in Mindanao in the first quarter of 2010 to Therma Marine. The total purchase price for both facilities was USD 30 million or close to ₱1.4 billion.
- f. The increase in Intangible Asset Service Concession Rights of 5% or by ₱45.17 million for the period in review versus last year is due to invested capital expenditures into the service concession area of one of the Company's ecozone utilities.
- g. The increase in Investments in and Advances to Associates of ₱2.95 billion from ₱24.8 billion to ₱27.75 billion is due to new investments made into Therma Marine's power barges as well as infusions into the ongoing rehabilitation for SNAP-Benguet's Ambuklao-Binga facilities and the take up of equity earnings.

Liabilities

A slight downward change in consolidated liabilities by 2% from ₱76.29 billion ending December 2009 to ₱74.81 billion is accounted for below:

- a. The Company managed to fully pay all Bank Loans as of reporting date as AP Parent, supported by healthy cash upstreams from its subsidiaries, fully paid short term loans it took

out in 2009 to support its investment activities as well as working capital requirements for its distribution subsidiaries.

- b. The 26% increase in Trade and Other Payables is due primarily to the new take up of Trade and Other Payables relating to the operations of newly turned over power barges of Therma Marine and an increase of Therma Luzon's various payables, mostly on its payables to suppliers.
- c. Derivative Liabilities decreased by 72% or ₱11.85 million as the foreign currency forwards entered into by Therma Marine wound down in the first two quarters of the year.
- d. The decrease in Income Tax Payable of 46% or ₱166.97 million, is mainly due to the granting of a non-pioneer enterprise status to Therma Luzon by the Board of Investments effective January 1, 2009 which allows Therma Luzon to enjoy a tax holiday for four years.
- e. Long-term debt increased by ₱701.88 million mainly due to a long term loan entered into this year by a subsidiary, Cebu Private Power Corporation (CPPC), totaling ₱800 million.
- f. Total Payable to Preferred Shareholders of a subsidiary, CPPC, decreased by a total of 18% or ₱16.22 million, from ₱88.030 million to ₱71.82 million, due to timely payments made during the year.
- g. The Total Finance Lease Obligations increased due to the accretion of interest that Therma Luzon has recognized on future monthly payments payable to PSALM.
- h. Obligations on Power Distribution System increased by 9% as Subiz Enerzone Corporation (SEZ), an ecozone utility subsidiary of the Company, accrued interest on future service concession commitments.
- i. Customers' deposits obligations rose by 10% from December 2009 levels due primarily to the growth of the customer base of DLP, one of the Company's major distribution utility.
- j. Pension provisions at AP Parent, Hedcor, Inc. and APRI brought the balances for pension liability up by 65% or up by ₱18.27 million.
- k. Deferred tax liability was recognized by Therma Luzon as it relates to the foreign denominated portion of its finance lease obligation which increased the deferred tax liability account to ₱411.73 million from just ₱38.00 million at the end of 2009.

Equity

The positive contributions for the three quarters of 2010 increased Equity attributable to equity holders of AP Parent by 47% from ₱34.48 billion as of December 2009 to ₱50.71 billion as of September 2010.

The Company declared dividends of ₱0.30 per share to all shareholders of record as of March 24, 2010, which was paid last April 16, 2010.

Financial Ratios

Compared to 2009, the Company's Current Ratio managed to increase to 1.44x versus 0.68x marked by an increase in Current Assets due to the following: (1) higher cash balances owing to healthy cash flows from the Company's various operating companies; (2) an increase in Trade and Other accounts receivables as higher volumes of energy was sold at better margins; and, (3) new Trade Receivables recognized by newly operating companies namely Therma Marine and Hedcor Sibulan.

The robust income recognized for the period further improved Debt to Equity ratios from 2.18 in September 30 2009 to 1.46 as of September 30, 2010.

Material Changes in Liquidity and Cash Reserves of Registrant

The following are various cash flows during the period to show the movements in cash, which grew from P3.81 billion ending 2009 to the current balance of P10.29 billion.

The biggest contributor to the higher cash position ending September 30, 2010 are net cash flows from operating activities which provided a hefty P19.48 billion in cash as higher revenues, boosted by cash flows from new investments as well as positive variances in volume and margin increased cash flows from the operations of the various AP companies. This is in contrast with cash flows from operating activities for the same period last year of P3.97 billion.

The slower pace of the investments during the period in review is evident in the net cash used in investing activities in the amount of P3.78 billion, which is lower than the previous year's net cash used in investing activities of P22.90 billion. For this year, the cash was primarily invested into the acquisition of two power barges by Therma Marine as well as the rehabilitation of the Ambuklao hydro plant of SNAP-Benguet. For the same period last year, the largest investing activity was the P21.95 billion acquisition of the Tiwi Makban assets.

Net cash flows used in financing activities was P9.43 billion versus cash from financing activities for the first quarter 2009 of P9.55 billion. During the period in review, the Company managed to pay down bank loans totalling P5.83 billion. It also paid P2.21 billion in dividends to its shareholders in the first quarter of 2010. Remaining significant cash outflows for financing activities was for payment of interest expenses during the period.

As of end September 2010 cash and cash equivalents stood at P10.29 billion versus cash and cash equivalents of P3.81 billion at the beginning of the year or a 170% increase.

Known Trends, Events, Uncertainties, which may have Material Impact on Registrant

Except for the developments disclosed in this report and the attached financial statements, there are, as of the date of this report, no known events or uncertainties that have had or are reasonably expected to have a material impact on the financial condition and operations of the Company.

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, the Company believes that it is in a good position to benefit from the foreseen opportunities that will arise in the year 2010. 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:

Generation Business

1. Continued Growth in the Company's attributable capacity

AP ended the period September 30, 2010 with a 94% year-on-year (YoY) expansion in its total attributable generating capacity, from 1,045 MW to 2,030 MW. The capacity growth was mainly due to the following:

- Takeover of dispatch control over the 700 MW contracted capacity of the Pagbilao coal-fired power plant

On August 28, 2009, Therma Luzon, a wholly owned subsidiary of AP, submitted the highest offer in the competitive bid for the appointment as the IPP Administrator of the 700 MW Contracted Capacity of the Pagbilao Coal Fired Thermal Power Plant located in Pagbilao, Quezon (the "Pagbilao IPPA") conducted by PSALM. The bid price amounted to US\$691 million as calculated in accordance with PSALM bid rules. This value represents the present value of a series of monthly payments to PSALM from October 2009 to August 2025 using PSALM discount rates. On October 1, 2009, Therma Luzon assumed dispatch control of the 700 MW Contracted Capacity of the Pagbilao Plant following the successful completion by Therma Luzon of the conditions precedent required in the IPP Administration Agreement with PSALM. As IPP Administrator, Therma Luzon is responsible for procuring the coal requirements of the Pagbilao Plant and for selling the electricity generated by the plant.

- Takeover of the two barge mounted diesel powered generation plants, each with a generating capacity of 100 MW

AP, through wholly owned subsidiary Therma Marine assumed ownership of PB 118 and PB 117 on February 6, 2010 and March 1, 2010, respectively. PB 118 is a power barge with a 100 MW bunker-fired generating facility moored at Bgy. San Roque, Maco, in Compostella Valley, Mindanao, while PB 117 is a power barge with a 100 MW bunker-fired generating facility moored at Bgy. Sta. Ana, Nasipit, Agusan del Norte, Mindanao.

AP acquired both power barges on July 31, 2009 via a successfully concluded negotiated bid with PSALM. The total purchase price for both barges is US\$30 million. Therma Marine has Ancillary Services Procurement Agreements with the NGCP.

- Full and partial completion of Greenfield power plant developments

42.5 MW Hedcor Sibulan Hydro Power Plant Project. This is a Greenfield run-of-river hydro power plant located in Barangay Sibulan, Sta. Cruz, Davao del Sur by AP's 100% owned subsidiary Hedcor Sibulan. The facilities, which comprise two cascading hydropower generating facilities tapping the Sibulan and Baroring rivers, are expected to generate an estimated 212 million kWh of clean and emissions-free energy annually. Plant B, which has a capacity of 26 MW, commenced its operations in May 2010, while Plant A, which has a capacity of 16.5 MW, was completed in July 2010.

164 MW out of the 246 MW Cebu Coal-fired Power Plant. The 3x82 MW coal-fired power plant in Toledo City, Cebu, which is a joint venture with Metrobank Group's Global Business Power Corporation and Cebu-based Vivant Energy Corporation of the Garcia Group, is scheduled for

completion in 2010. Two units with a capacity of 82 MW each have started generating and feeding power into the Visayas Grid in February and May 2010. The last unit is expected to be completed in the fourth quarter of 2010. AP has an effective participation of 26% in the project.

Moving forward, AP's attributable capacity is seen to further increase as the following events take place:

- Rehabilitation of the Ambuklao-Binga hydro power facilities

The Company, together with its partner SN Power Invest AS (SN Power), is pursuing the programmed rehabilitation of both the 75 MW Ambuklao and 100 MW Binga hydro facilities. Completion of the rehabilitation of the former has been delayed due to the construction of a new headrace tunnel ("HRT"). Difficulties were encountered in completing the plugging of the existing plant HRT due to the unexpectedly larger quantity of sediments (silt and clay) in the facility compounded by the effect of Typhoon Pepeng. The plant's rehabilitation works are expected to be completed by the last quarter of 2011, when all three (3) units are operating, instead of end-2010 as earlier estimated. After the rehabilitation, the Ambuklao plant will have a capacity of 105 MW of renewable energy that will significantly augment supply of electrical power to the Luzon Grid. Rehabilitation works on Binga will commence in 2011, performing works on one unit per year. Completion of rehabilitation of all four units is expected by 2014, which should enhance generating capacity by 20%, to 120 MW.

- Greenfield and Brownfield developments

300 MW Coal-fired Power Plant in Subic. After revisiting the power demand and supply situation in the Luzon Grid, 50%-owned Redondo Peninsula Energy, Inc. ("RP Energy") has decided to pursue the 300 MW coal-fired power plant project in Subic Bay Freeport Zone (the "Subic Coal Project"). Management believes that the current economic environment makes the Subic Coal Project more feasible. RP Energy is in talks with prospective turnkey contractors for the Engineering, Procurement and Construction contract for the project. The Board of Directors of AP had previously approved its investment in RP Energy and the Subic Coal Project but deferred its project timetable.

150 MW Coal-fired Power Plant in Misamis Oriental. On June 28, 2010, AP and its partners in STEAG State Power, Inc., owner of the 232 MW coal plant located at the Phividec Industrial Estate in Villanueva, Misamis Oriental, firmed up their collective intention to develop a third unit of approximately 150 MW capacity adjacent to the existing facility. AP and its partners agreed to maintain their shareholdings in the same proportions in the new corporation to be established for the planned additional capacity. Certain essential facilities, such as the jetty, coal handling facilities and stockyards and the 138-kV interconnection with the Mindanao Grid are to be shared with the existing facilities. Depending on the interest the market demonstrates, the agreement contemplates the possibility of another unit.

15 MW Hedcor Tamugan Hydro Power Plant Project. Wholly owned subsidiary, Hedcor Tamugan, Inc. (Hedcor Tamugan), is awaiting the resolution of the Tamugan water rights dispute with the Davao City Water District (DCWD) before it will pursue the construction of the Tamugan hydropower project. Further discussion with the DCWD led to the revision of the project's design and plant size. Hedcor Tamugan has submitted a proposal for a 15 MW hydropower plant, in lieu of the contested proposal for a 27.5 MW hydropower plant. Given the new project scheme, Hedcor Tamugan will have to conduct studies for engineering design (one year). Once approved and permits are secured, the two-year construction period will commence. Despite the lower generating capacity, the

required amount of energy under a power supply agreement between the Hedcor consortium (of which Hedcor Tamugan is a part of) and DLP will be met.

Other Greenfield and Brownfield developments. AP, together with its subsidiaries and associate company, is conducting feasibility studies for potential Greenfield and Brownfield projects.

- AP is undergoing a feasibility study for a 150–200 MW coal-fired power plant in Davao, which is the biggest load center in the island of Mindanao. Proposal has been presented to the local government and business community. The company is currently looking for a potential site. Once in place, together with all the necessary permits and approvals, construction is expected to be completed in 36 months.
- The SN Aboitiz Power Group (“SNAP Group”) is in the process of evaluating several hydropower plant projects. A Brownfield project is being evaluated for its Magat hydropower plant, which involves the construction of a pump storage that could potentially increase its capacity by at least 90 MW. The SNAP Group is likewise evaluating several Greenfield hydropower plant projects that have at least 70 MW of potential capacity each. It expects to come up with a shortlist of projects for presentation to its board by end of 2010, but firm prospects for investment may be expected sometime early 2011.
- 100%–owned subsidiary Hedcor, Inc. (Hedcor) is conducting feasibility studies for potential hydropower projects located in both Luzon and Mindanao. Based on current findings, Hedcor sees the potential of building 5–50 MW plants in the identified areas. The feasibility studies are expected to be completed in two years. Once permits are secured, another two years will be needed for the actual construction of the hydro facilities.

2. Participation in the Government’s Privatization Program for its Power Assets

The Company continues to closely evaluate the investment viability of the remaining power generation assets that PSALM intends to auction off.

AP is also keen on participating in PSALM’s public auction for the Independent Power Producer (IPP) Administrator contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPP administrators.

Distribution Business

As the impact of the global financial crisis to the local economy unfolds, the Company remains optimistic that it will realize modest growth on its existing distribution utilities. It continually seeks efficiency improvements in its operations to maintain healthy margins.

The implementation of the rate adjustment formula for the distribution companies under PBR is on a staggered basis. In addition to annual adjustments, PBR allows for rate adjustments in between the reset periods to address extraordinary circumstances. There is also a mandatory rate-setting every four years wherein possible adjustments to the rate take into account current situations.

On May 1, 2009, CLP implemented its final approved rate structure, which was released by the Energy Regulatory Commission (ERC) on April 15, 2009. This rate structure was based on the approved annual revenue requirement and performance incentive scheme under the PBR. CLP is the first distribution utility in the AP group to implement this incentive-based scheme.

VECO and DLP are part of the third group (Group C) of private distribution utilities expected to enter PBR. Both VECO and DLP entered their respective reset periods in end 2008 and obtained ERC approvals on their respective annual revenue requirement and performance incentive scheme in March 2010. VECO and DLP started to implement their approved rate structures in August 2010.

SFELAPCO and SEZ are part of the fourth batch (Group D) of private distribution utilities to enter PBR. They are expected to enter their respective 4-year regulatory period by October 1, 2011.

In September 2009, SFELAPCO filed a rate increase application with the ERC under the return RORB rate making methodology. In April 2010, the ERC approved a rate increase of ₱0.2297/kWh, which was implemented starting May 8, 2010.

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.

Market and Industry Developments

Open Access and Retail Competition

Per EPIRA, the conditions for the commencement of the Open Access and Retail Competition 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% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- (e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

As of date, the government was able to comply with the fourth pre-condition for the implementation of Open Access and Retail Competition. Privatized NPC generating assets in Luzon and Visayas have reached approximately 92%. The only remaining pre-condition that has to be met is the privatization of at least 70% of NPC's IPP contracts, which currently stands at approximately 68%.

Under the Open Access and Retail Competition, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a Retail Electricity Supplier license from the ERC. Eligible suppliers shall include the following:

- Generation companies that own, operate or control 30% or less of the installed generating capacity in a grid and/or 25% or less of the national installed capacity
- NPC-Independent Power Producers with respect to capacity which is not covered by contracts
- IPP Administrators with respect to the uncontracted energy which is subject to their administration and management

- Retail Electricity Suppliers (RES) duly licensed by the ERC

The implementation of the Open Access presents a big opportunity for AP, as it has two wholly owned subsidiaries (i.e. Aboitiz Energy Solutions, Inc. and AdventEnergy, Inc.) that are licensed retail suppliers, which can enter into contracts with the eligible contestable customers. Moreover, AP's generation assets that have uncontracted capacity will be able to have direct access to eligible contestable customers through AP's licensed RES.

Capital Raising and Refinancing Activities

On April 30, 2009, AP issued a total of ₱3 billion worth of peso-denominated fixed rate retail bonds under the following terms:

MATURITY	INTEREST RATE	AMOUNT
5-year bonds to mature on May 1, 2014	8.7% p.a.	₱2,294,420,000
3-year bonds to mature on April 30, 2012	8.0% p.a.	₱ 705,580,000

The issue was 2.5 times oversubscribed and had to be upsized from ₱1.5 billion to ₱3 billion. The Philippine Rating Services Corporation (PhilRatings) issued a "PRS Aaa" rating for this bond issue in February 2009. Obligations rated "PRS Aaa," the highest possible rating by PhilRatings, are of the highest quality with minimal credit risk – an indication of the extremely strong capacity of the obligor to meet its financial commitment on the obligation.

On September 18, 2009, AP signed a Notes Facility Agreement with First Metro Investment Corporation as Issue Manager, MBTC – Trust Banking Group as Notes Facility Agent and a consortium of primary institutional lenders for the issuance of five-year peso-denominated corporate fixed rate notes ("Notes") in the aggregate amount of ₱5 billion. The Notes were issued in September 2009 in a private placement to not more than 19 primary institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2)(B) of the SRC Rules.

**ABOITIZ POWER CORPORATION
AND SUBSIDIARIES**

Unaudited Consolidated Financial Statements
As of September 30, 2010 (with Comparative Audited Consolidated
Figures as of December 31, 2009) and for the Six Months Ended
September 30, 2010 and 2009

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	September 30	December 31
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	₱10,293,017	₱3,814,906
Trade and other receivables	7,335,434	4,476,028
Derivative asset	—	846
Inventories	1,822,779	1,110,639
Other current assets	1,055,209	512,684
Total Current Assets	20,506,439	9,915,103
Noncurrent Assets		
Property, plant and equipment	74,004,002	72,901,029
Intangible asset - service concession rights	927,479	882,308
Investment property	10,000	10,000
Investments in and advances to associates	27,752,675	24,800,301
Available-for-sale (AFS) investments	3,744	3,744
Goodwill	996,005	996,005
Pension assets	37,186	37,186
Deferred income tax assets	252,541	250,009
Other noncurrent assets	1,597,904	1,545,032
Total Noncurrent Assets	105,581,536	101,425,614
TOTAL ASSETS	₱126,087,975	₱111,340,717
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	₱ —	₱5,828,100
Trade and other payables	7,561,344	6,022,537
Derivative liabilities	4,631	16,476
Income tax payable	198,242	365,209
Current portion of:		
Long-term debts	577,586	101,200
Finance lease obligation	5,883,784	2,270,994
Payable to preferred shareholder of a subsidiary	10,348	11,263
Long-term obligation on power distribution system	40,000	40,000
Total Current Liabilities	14,275,935	14,655,779
Noncurrent Liabilities		
Long-term debts - net of current portion	16,376,825	16,151,335
Finance lease obligation - net of current portion	41,414,870	43,315,170
Long-term obligation on power distribution system - net of current portion	273,784	247,460
Customers' deposits	1,951,147	1,781,116
Payable to preferred shareholder of a subsidiary - net of current portion	61,467	76,767
Pension liabilities	46,430	28,158
Deferred income tax liabilities	411,730	38,005
Total Noncurrent Liabilities	60,536,253	61,638,011
Total Liabilities	74,812,188	76,293,790
Equity Attributable to Equity Holders of the Parent		
Capital stock	7,358,604	7,358,604
Additional paid-in capital	12,588,894	12,588,894
Share in cumulative translation adjustments of associates	14,104	115,246
Acquisition of minority interests	(259,147)	(259,147)
Retained earnings	31,003,057	14,672,262
	50,705,512	34,475,859
Minority Interests	570,275	571,068
Total Equity	51,275,787	35,046,927
TOTAL LIABILITIES AND EQUITY	₱126,087,975	₱111,340,717

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Amounts)

	JAN-SEP/10	JAN-SEP/09	JUL-SEP/10	JUL-SEP/09
OPERATING REVENUES	₱45,897,201	₱13,818,320	₱11,773,471	₱6,367,319
OPERATING EXPENSES	25,694,094	10,718,005	6,778,127	4,350,651
	20,203,107	3,100,315	4,995,344	2,016,668
FINANCIAL INCOME (EXPENSES)				
Interest income	99,096	375,969	57,097	55,125
Interest expense and other financing costs	(4,906,292)	(1,331,363)	(1,638,506)	(797,068)
	(4,807,196)	(955,394)	(1,581,409)	(741,943)
OTHER INCOME (EXPENSES)				
Share in net earnings of associates	2,539,385	1,766,414	1,512,075	795,731
Others - net	1,381,861	291,362	1,331,735	281,679
	3,921,246	2,057,776	2,843,810	1,077,410
INCOME BEFORE INCOME TAX	19,317,157	4,202,697	6,257,745	2,352,135
PROVISION FOR INCOME TAX	703,007	347,053	393,832	136,238
NET INCOME	₱18,614,150	₱3,855,644	₱5,863,913	₱2,215,897
Attributable to:				
Equity holders of the parent	₱18,538,376	₱3,795,422	₱5,824,025	₱2,197,761
Minority interests	75,774	60,222	39,888	18,137
	₱18,614,150	₱3,855,644	₱5,863,903	₱2,215,897
EARNINGS PER COMMON SHARE				
Basic and diluted, income for the period attributable to ordinary equity holders of the parent	₱2.519	₱0.516	₱0.791	₱0.299

See Disclosure H for the computation of Earnings per Common Share

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	JAN-SEP/10	JAN-SEP/09
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	₱18,538,376	₱3,795,422
Minority interests	75,774	60,222
	18,614,150	₱3,855,644
OTHER COMPREHENSIVE INCOME (LOSS)		
Share in movement in cumulative translation adjustments of associates	(101,142)	(6,259)
Income tax effect on other comprehensive income	-	6
Total other comprehensive income, net of tax	(101,142)	(6,259)
TOTAL COMPREHENSIVE INCOME	₱18,513,008	₱3,849,385
Attributable to:		
Equity holders of the parent	18,437,234	3,789,163
Minority interests	75,774	60,222
	₱18,513,008	₱3,849,385

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE PERIODS ENDED SEPTEMBER 30, 2010 AND 2009 AND DECEMBER 31, 2009

(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent							
	Capital Stock	Subscriptions Receivable	Additional Paid-in-Capital	Share in Cumulative Translation Adjustments of Associates	Acquisition of Minority Interests	Retained Earnings	Minority Interests	Total
Balances at January 1, 2010	₱7,358,604	₱6	₱12,588,894	₱115,246	(₱259,147)	₱14,672,262	₱571,068	₱35,046,927
Cash dividends						(2,207,581)		(2,207,581)
Total comprehensive income for the year	6	6	6	(101,142)	6	18,538,376	75,774	18,513,008
Change in minority interests	6	6	6	6	6	6	(76,567)	(76,567)
Balances at September 30, 2010	₱7,358,604	₱-	₱12,588,894	₱14,104	(₱259,147)	₱31,003,057	₱570,275	₱51,275,787
Balances at January 1, 2009	₱7,358,604	₱6	₱12,588,894	(₱18,422)	(₱259,147)	₱10,485,401	₱536,333	₱30,691,663
Total comprehensive income for the year	6	6	6	133,668	6	5,658,581	111,187	5,903,436
Cash dividends - ₱0.20 a share	6	6	6	6	6	(1,471,720)	6	(1,471,720)
Change in minority interests	6	6	6	6	6	6	(76,452)	(76,452)
Balances at December 31, 2009	₱7,358,604	₱6	₱12,588,894	₱115,246	(₱259,147)	₱14,672,262	₱571,068	₱35,046,927
Balances at January 1, 2009	₱7,358,604	₱6	₱12,588,894	(₱18,422)	(₱259,147)	₱10,485,401	₱536,333	₱30,691,663
Total comprehensive income (loss) for the year	6	6	6	(6,259)	6	3,795,422	60,222	3,849,385
Cash dividends - ₱0.20 a share	6	6	6	6	6	(1,471,720)	6	(1,471,720)
Change in minority interests	6	6	6	6	6	6	(384)	(384)
Balances at September 30, 2009	₱7,358,604	₱6	₱12,588,894	(₱24,681)	(₱259,147)	₱12,809,103	₱5,796,171	₱33,068,944

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	JAN-SEP/10	JAN-SEP/09	JUL-SEP/10	JUL-SEP/09
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱19,317,157	₱4,202,697	₱6,257,745	₱2,352,135
Adjustments for:				
Depreciation and amortization	2,180,284	708,828	745,598	324,605
Interest expense	4,906,292	1,331,363	1,638,506	797,068
Net unrealized foreign exchange losses (gains)	(1,469,098)	64,833	(1,299,870)	(19,957)
Unrealized fair valuation losses (gains) on derivatives	(13,348)	-	(3,130)	0
Loss (Gain) on sale of property, plant and equipment	1,108	(61)	1,108	0
Interest income	(99,096)	(375,969)	(57,097)	(55,125)
Share in net earnings of associates	(2,539,385)	(1,766,414)	(1,512,075)	(795,731)
Operating income before working capital changes	22,283,914	4,165,277	5,770,785	2,602,995
Decrease (increase) in operating assets	(4,095,893)	(1,333,939)	1,628,773	812,358
Increase in operating liabilities	1,814,056	1,389,376	(1,521,948)	179,832
Net cash generated from operations	20,002,077	4,220,714	5,877,610	3,595,185
Income and final taxes paid	(518,032)	(253,586)	(77,525)	(66,528)
Net cash flows from operating activities	19,484,045	3,967,128	5,800,085	3,528,657
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash dividends received	571,685	584,735	40,466	124,551
Interest received	101,754	404,159	56,492	46,078
Additions to property, plant and equipment	(3,249,962)	(21,678,844)	(586,781)	(597,528)
Additional investments in associates	(942,934)	(1,787)	(278,540)	(1,358)
Additional advances to associates	(143,507)	(1,457,956)	(132,710)	(323,486)
Additions to intangible assets - service concession rights	(79,574)	(235,883)	(30,959)	(194,424)
Decrease (increase) in other assets	(42,368)	(512,491)	(49,417)	2,036
Net cash flows used in investing activities	(3,784,906)	(22,898,067)	(981,449)	(944,131)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (payments of) long-term debt	701,876	9,162,398	(78,412)	(6,252,741)
Net payment of bank loans	(5,828,100)	3,203,540	0	4,103,130
Changes in minority interests	(69,759)	(383)	(20,002)	0
Payments to preferred shareholders of a subsidiary	(31,070)	(14,663)	-	5,468
Payments for finance lease obligation	(843,990)	0	(281,280)	0
Interest paid	(1,155,790)	(1,326,148)	(335,133)	(881,610)
Decrease in derivative liabilities	2,349	-	3,485	0
Cash dividends paid	(2,207,581)	(1,471,721)	-	0
Net cash flows from (used in) financing activities	(9,432,065)	9,553,023	(711,342)	(3,025,753)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,267,074	(9,377,916)	4,107,294	(441,227)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	211,037	(64,833)	(58,062)	19,957
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	3,814,906	14,333,676	6,243,785	5,312,197
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	₱10,293,017	₱4,890,927	₱10,293,017	₱4,890,927

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
FINANCIAL STATEMENTS SCHEDULES AND DISCLOSURES
(Amounts in Thousands, Except Share and Exchange Rate Data and When Otherwise Indicated)

A Components of Other Comprehensive Income

	JAN-SEP/10	JAN-SEP/09
Share of other comprehensive income of associates	₱(101,142)	₱(6,259)
Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the period	₱(101,142)	₱(6,259)

B Tax Effects Relating to Each Component of Other Comprehensive Income

	JAN-SEP/10		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Share of other comprehensive income of associates	₱(101,142)		₱(101,142)
Other comprehensive income for the period	₱(101,142)	-	₱(101,142)

	JAN-SEP/09		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Share of other comprehensive income of associates	₱(6,259)		₱(6,259)
Other comprehensive income for the period	₱(6,259)	-	₱(6,259)

C Investments in and Advances to Associates

	% Ownership	September 30, 2010	December 31, 2009
Acquisition cost:			
Manila Oslo Renewable Enterprise, Inc.	83.33	₱8600,766	₱7,658,087
STEAG State Power, Inc.	34.00	4,400,611	4,400,611
Cebu Energy Development Corp.	44.00	2,438,621	2,438,621
Luzon Hydro Corporation	50.00	1,048,251	1,048,251
East Asia Utilities Corporation	50.00	1,009,143	1,009,143
Hijos de F. Escano, Inc.	46.73	858,070	858,070
Visayan Electric Co., Inc.	55.19	657,368	657,113
Western Mindanao Power Corporation	20.00	263,664	263,664
Pampanga Energy Ventures, Inc.	42.84	209,465	209,465
San Fernando Electric Light & Power Co., Inc.	43.78	180,864	180,864
Southern Philippine Power Corporation	20.00	152,587	152,587
Redondo Peninsula Energy, Inc.	50.00	5,000	5,000
SN Aboitiz Power ó Pangasinan, Inc.	50.00	4,732	4,732
Others		27,836	28,461
Forward			

	September 30, 2010	December 31, 2009
Balance at end of period	₱19,856,978	₱18,914,669
Accumulated equity in net earnings:		
Balance at beginning of the year	4,966,140	3,263,941
Share in net earnings	2,539,385	2,535,386
Cash dividends	(571,685)	(833,187)
Balance at end of period	6,933,840	4,966,140
	26,790,818	23,880,809
Share in cumulative translation adjustments of associates	14,104	115,246
Investments in associates at equity	26,804,922	23,996,055
Advances to associates - net	947,753	804,246
	₱27,752,675	₱24,800,301

D Trade and Other Payables

	September 30, 2010
Trade	₱1,644,883
DOSRI	ó
Others	5,916,461
	₱7,561,344

E Bank Loans

	Interest Rate	Sep 30/10	Dec 31/09
Peso loans - financial institutions - unsecured	5.10% to 8.75% in 2009	₱ó	₱2,085,900
Dollar loans - financial institutions - unsecured	5.10% to 5.75% in 2009	ó	3,742,200
		₱ó	₱5,828,100

F Long-term Debts

Company	Interest Rate	Sep 30/10	Dec 31/09
Financial and non-financial institutions - unsecured			
2008 5-year corporate note	8.78%	₱3,330,000	₱3,330,000
2008 7-year corporate note	9.33%	554,400	554,400
2009 5-year corporate note	8.23%	5,000,000	5,000,000
Retail bonds - unsecured			
3-year bonds	8.00%	705,580	705,580
5-year bonds	8.70%	2,294,420	2,294,420
HIS			
Financial institutions - secured	8.52%	3,570,000	3,570,000
HI			
Financial institution - secured	8.36%	549,100	613,700
CPPC			
Financial institutions - secured	6.68%-6.71%	693,333	0
SEZC			
Financial institution - secured	8.26% - 10.02%	315,954	331,454
BEZC			
Financial institution - secured	7.50%	70,000	0
Total		17,082,787	16,399,554
Less deferred financing costs		128,376	147,019
		16,954,411	16,252,535
Less current portion		577,586	101,200
		₱16,376,825	₱16,151,335

G Debt Securities

The Company registered and issued P3 billion worth of peso denominated fixed rate retail bonds on April 30, 2009 under the following terms:

MATURITY	INTEREST RATE	AMOUNT
5-year bonds to mature on May 1, 2014	8.7%/p.a.	₱2,294,420
3-year bonds to mature on April 30, 2012	8.0%/p.a.	₱705,580

H Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	JAN-SEP/10	JAN-SEP/09
a. Net income attributable to equity holders of the parent	₱18,538,376	₱3,795,422
b. Weighted average number of common shares issued and outstanding	7,358,604,307	7,358,604,307
c. Earnings per common share (a/b)	₱2.519	₱0.516

There are no dilutive potential common shares as of September 30, 2010 and 2009.

I Business Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group identified operating segments, which are consistent with the segments reported to the Board of Directors (BOD), which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company and electricity-related services of the Group such as installation of electrical equipment.

The Group has only one geographical segment, as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Financial information on the operations of the various business segments are summarized as follows:

September 30, 2010

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱36,197,340	₱9,643,263	₱56,598	₱-	₱45,897,201
Inter-segment	429,557	-	167,184	(596,741)	-
Total Revenue	₱36,626,897	₱9,643,263	₱223,782	(₱596,741)	₱45,897,201
Segment results	₱19,371,495	₱812,321	₱19,291	₱-	₱20,203,107
Unallocated corporate income - net	1,104,049	285,692	(7,880)	-	1,381,861
INCOME FROM OPERATIONS					
	20,475,544	1,098,013	11,411	-	21,584,968
Interest expense	(3,979,514)	(77,706)	(862,464)	13,392	(4,906,292)
Interest income	65,563	6,997	39,928	(13,392)	99,096
Share in net earnings of associates	2,214,977	324,409	19,378,210	(19,378,210)	2,539,385
Provision for (benefit from) income tax	(433,995)	(258,908)	(10,104)	-	(703,007)
NET INCOME	₱18,342,575	₱1,092,804	₱18,556,981	(₱19,378,210)	₱18,614,150
OTHER INFORMATION					
Investments in Associates	₱24,470,504	₱2,334,418	₱46,691,872	(₱46,691,872)	₱26,804,922
Segment Assets	₱110,657,601	₱8,485,465	₱64,814,874	(₱57,869,964)	₱126,087,975
Segment Liabilities	₱69,436,190	₱4,534,481	₱14,246,843	(₱13,405,326)	₱74,812,188
Depreciation and amortization	₱1,925,464	₱242,056	₱12,764	₱-	₱2,180,284

September 30, 2009

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱5,741,428	₱8,023,259	₱53,633	₱6	₱13,818,320
Inter-segment	83,057	6	164,279	(247,336)	6
Total Revenue	₱5,824,485	₱8,023,259	₱217,912	(247,336)	₱13,818,320
Segment results	₱2,222,449	₱907,957	(₱30,091)	₱6	₱3,100,315
Unallocated corporate income (expenses)	14,143	283,569	(6,349)	6	291,362
INCOME FROM OPERATIONS					
	2,236,592	1,191,526	(36,440)	6	3,391,677
Interest expense	(765,901)	(80,935)	(514,207)	29,680	(1,331,363)
Interest income	27,209	8,767	369,673	(29,680)	375,969
Share in net earnings of associates	1,608,026	158,388	3,926,129	(3,926,129)	1,766,414
Provision for income tax	(118,531)	(287,390)	58,868	-	(347,053)
NET INCOME	₱2,987,395	₱990,356	₱3,804,023	(₱3,926,129)	₱3,855,644
OTHER INFORMATION					
Investments in Associates	₱18,674,014	₱2,136,626	₱23,900,880	(₱23,900,880)	₱20,810,641
Segment Assets	₱71,392,084	₱7,800,581	₱53,345,890	(₱69,047,733)	₱63,490,822
Segment Liabilities	₱52,188,358	₱3,976,601	₱20,823,888	(₱46,566,970)	₱30,421,877
Depreciation and amortization	₱449,079	₱253,080	₱6,669	₱6	₱708,828

J Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, derivative asset, AFS investments, restricted cash, bank loans, trade and other payables, derivative liabilities, finance lease obligation, payable to preferred shareholder of a subsidiary, long-term obligation on power distribution system and customers' deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, foreign exchange risk, and credit risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized below.

Liquidity risk

Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long term borrowings should mature in any twelve-month period. 9.76% of the Group's debt will mature in less than one year at September 30, 2010 (December 31, 2009: 3.74%). For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents, trade and other receivables that have contractual undiscounted principal cash flows amounting to ₱10,293,017 and ₱7,335,434 as of September 30, 2010. Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following table summarizes the maturity profile of the Group's financial liabilities as of September 30, 2010 based on contractual undiscounted principal payments:

	Total carrying value	Contractual undiscounted principal payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Trade and other payables	₱5,658,863	₱5,658,863	₱6	₱5,658,863	₱6	₱6
Due to related parties	1,902,481	1,902,481	1,902,481	6	6	6
Customers' deposits	1,951,147	1,951,147	6	6	22,988	1,928,159
Bank loans	6	6	6	6	6	6
Payable to preferred shareholders of subsidiary	71,815	93,210	6	31,070	62,140	6
Finance lease obligation	47,298,654	115,601,726	6	1,454,157	23,003,305	91,144,264
Long-term obligation on power distribution system	313,784	720,000	6	40,000	200,000	480,000
Long-term debts	16,954,411	17,082,787	6	577,586	13,293,262	3,211,939
Total	₱74,151,155	₱143,010,214	₱1,902,481	₱7,761,676	₱36,581,695	₱96,764,362

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of September 30, 2010, 4% of the Group's long term debt had floating interest rates ranging from 6.68% to 6.71%, and 96% are with fixed rates ranging from 7.50% to 10.02%. As of December 31, 2009, all of the Group's long term debt had fixed rates ranging from 8.00% to 10.02%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

As of September 30, 2010

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱213,333	₱480,000	₱6	₱693,333
Floating rate - payable to preferred shareholder of a subsidiary	10,348	61,467	6	71,815
	₱223,681	₱541,467	₱6	₱765,148

As of December 31, 2009

	<1 year	1-5 years	>5 years	Total
Floating rate - payable to preferred shareholder of a subsidiary	₱11,263	₱76,767	₱-	₱88,030

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk. The Group's derivative asset and liabilities are subject to fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings).

	Increase (decrease) in basis points	Effect on income before tax
September 2010	100	(₱6,933)
	(50)	3,467

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

The sources of interest expense and other finance charges recognized during the period are as follows:

	JAN-SEP/10	JAN-SEP/09
Bank loans and long-term debt	₱1,045,299	₱1,283,472
Customers' deposits	4,342	4,253
Finance lease obligation	3,814,541	-
Long-term obligation on power distribution system	26,324	26,733
Payable to preferred shareholder of subsidiary	14,855	16,407
Advances from related parties	26,324	498
	₱4,906,292	₱1,331,363

Foreign exchange risk

The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing adverse impact of changes in foreign exchange rates on financial performance and cash flows. As of September 30, 2010 and December 31, 2009, foreign currency denominated borrowings account for 38% and 41%, respectively, of total consolidated borrowings.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of September 30, 2010, translated to Philippine Peso.

	US Dollar	Philippine Peso equivalent ¹
Loans and receivables		
Cash	US\$1,127	₱49,435
Trade and other receivables	-	-
Advances to associates	1,402	61,515
Restricted cash	12,130	532,281
Total financial assets	14,659	643,231
Other financial liabilities		
Bank loans	-	-
Trade and other payables	-	-
Finance lease obligation	552,510	24,244,142
Total financial liabilities	552,510	24,244,142
	(US\$537,851)	(₱23,600,911)

¹\$1 = ₱43.8800
\$1 = ₱46.2000
ending Dec 31 2009

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of September 30, 2010.

	Increase/ (decrease) in US Dollar	Effect on income before tax
US dollar denominated accounts	US Dollar strengthens by 5%	(₱1,180,046)
US dollar denominated accounts	US Dollar weakens by 5%	1,180,046

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

Credit risk

For its cash investments (including restricted portion), AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and AFS investments, the risk is mitigated by the short-term and or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has no significant concentration risk to counterparty or group of counterparties.

Credit risk concentration of the Group's receivables according to the customer category as of September 30, 2010 and December 31, 2009 is summarized in the following table:

	September 30, 2010	December 31, 2009
Power distribution		
Residential	₱323,632	₱228,942
Commercial	106,485	96,799
Industrial	499,096	296,444
City street lighting	3,539	10,465
Power generation		
Spot market	1,809,508	975,729
Power supply contracts	4,122,674	2,104,015
	₱6,864,934	₱3,712,394

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements.

No changes were made in the objectives, policies or processes during the period ended September 30, 2010 and December 31, 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt, finance lease obligation and payable to preferred shareholders of a subsidiary) less cash and short-term deposits and temporary interest bearing advances to related parties.

Gearing ratios of the Group as of September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
Bank loans	P-	P5,828,100
Long-term debt	64,324,880	61,926,729
Cash and cash equivalents	(10,293,017)	(3,814,906)
Temporary advances to related parties	ó	ó
Net debt (a)	54,031,863	63,939,923
Equity	51,275,787	35,046,927
Equity and net debt (b)	P105,307,650	P98,986,850
Gearing ratio (a/b)	51.31%	64.59%

K Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements at other than fair values (amounts in millions).

	September 30, 2010		December 31, 2009	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents	₱10,293	₱10,293	₱3,815	₱3,815
Trade and other receivables	7,575	7,575	4,476	4,476
Other noncurrent asset*	532	532	560	560
	18,400	18,400	8,851	8,851
Financial Assets at FVPL				
Derivative asset	–	–	1	1
AFS Financial Assets	4	4	4	4
	₱18,404	₱18,404	₱8,856	₱8,856
FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	₱–	₱–	₱5,828	₱5,828
Long-term debt				
Floating - long-term debt	693	693	–	–
Fixed rate - long-term debt	16,261	17,272	16,253	17,411
Floating rate - payable to preferred shareholder of a subsidiary	72	72	88	88
Fixed rate - finance lease obligation	47,299	54,660	45,586	52,947
	64,325	72,697	61,927	70,446
Customers' deposits	1,951	1,951	1,781	1,781
Long-term obligation on power distribution system	314	318	287	292
Trade and other payables	7,561	7,561	6,023	6,023
	74,151	82,527	75,846	84,370
Financial Liability at FVPL				
Derivative liabilities	5	5	16	16
	₱74,156	₱82,532	₱75,862	₱84,386

*"Other noncurrent asset" represents restricted cash in bank.

Fair Value of Financial Instruments

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with an active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables, bank loans and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

Restricted cash

The carrying value of the restricted cash approximates their fair value as they earn interest based on prevailing bank deposit rates.

Derivative asset and liabilities. The fair value is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity.

Fixed-rate borrowings. The fair value of fixed rate interest bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is frequent (i.e., three-month repricing), the carrying value approximates the fair value.

Finance lease obligation. The fair value of the finance lease obligation was calculated by discounting future cash flows using applicable interest rates.

Long-term obligation on PDS. The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

AFS investments. The fair values of AFS investments are based on cost since fair values are not readily determinable.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Only the Group's derivative instruments, which are classified under Level 2, are measured at fair value. During the reporting period ending December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

L Disclosures

1. **Basis of Preparation, Statement of Compliance and Changes in Accounting Policies**

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS investments, which are measured at fair value. The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except for earnings per share and exchange rates and otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The accounting policies followed in the preparation of the interim financial statements are consistent with those of the previous financial year except for the following amended PFRS which the Group has adopted starting January 1, 2010:

- *Revised PFRS 3, Business Combinations, and Amendments to PAS 27, Consolidated and Separate Financial Statements*
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes in PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

The revisions made under PAS 27 have no significant impact on the Group as its current manner of accounting for changes in its ownership interest of subsidiaries is already in compliance with this new accounting standard.
- *Amendments to PFRS 2, Share-based Payments - Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, Share-based Payments, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.
- *Amendment to PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
The amendment to PAS 39, Financial Instruments: Recognition and Measurement clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of

inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no significant impact on the financial position or performance of the Group.

- *Philippine Interpretations IFRIC 17, Distributions of Non-Cash Assets to Owners*
This Interpretation provides guidance on how to account for non-cash distributions to owners. It clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements.

Improvement to PFRS Effective 2010

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except otherwise stated. The Group anticipates that these changes will have no material effect on the consolidated financial statements.

- *PFRS 2, Share-based Payments*
Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, Business Combinations (Revised).
- *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*
Clarifies that the disclosures required with respect to noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.
- *PFRS 8, Operating Segments*
Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *PAS 1, Presentation of Financial Statements*
Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- *PAS 7, Cash Flow Statements*
Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- *PAS 17, Leases*
Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- *PAS 36, Impairment of Assets PFRS 2, Share-based Payments*
Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- · *PAS 38, Intangible Assets*
Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- · *PAS 39, Financial Instruments: Recognition and Measurement*
Clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;

The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and

Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect comprehensive income.

- · *Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*
Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- · *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation*

States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

2. Seasonality of Interim Operations

Operations of hydropower plants are generally affected by climatic seasonality. Seasonality and location have a direct effect on the level of precipitation. In Luzon where rainy and summer seasons are more pronounced, higher rainfall is normally experienced in the months of SEPe to September. As such, the hydropower plants located in Luzon operate at their maximum capacity during this period. In contrast, the hydropower plants in Mindanao experience a well-distributed rainfall throughout the year, with a slightly better precipitation during the months of December to April. This precipitation seasonality greatly affects subsidiary company Hedcor Inc. (HI) and LHC (associate), which operate run-of-river hydropower plants since these plants do not have any means to impound water.

Any unexpected change in the seasonal aspects will have no material effect on the Group's financial condition or results of operations.

3. Material Events and Changes

On July 31, 2009, Therma Marine and Therma Mobile, subsidiaries, won the negotiated bid with PSALM for the 100 MW PB 118 and 100 MW PB 117 with a bid price of US\$16.0 million and \$14.0 million, respectively. PB 118 is moored in Barangay San Roque, Maco, Compostela Valley in Mindanao. PB 117 is moored in Barangay Sta. Ana, Nasipit, Agusan Del Norte.

Under the terms of the APA, Therma Marine is required to deliver at least 40% of the purchase price upon closing of the acquisition. The remaining 60% is payable over a period not to exceed seven years. On February 16, 2010, Therma Marine entered into an Assignment Agreement (the Agreement) with Therma Mobile. Under the agreement, Therma Mobile transferred all of its rights and obligations under the APA as buyer of PB 117. Therma Marine shall now be deemed, for all intents and purposes as the buyer of PB 117.

The control and possession of PB 118 and PB 117 was successfully turned-over and transferred to Therma Marine on February 6, 2010 and March 1, 2010, respectively. Therma Marine will account for the purchase of PB 117 and PB 118 as acquisition of a business using the purchase method. As of Sep. 30, 2010, Therma Marine has yet to finalize the purchase price allocation.

Except for the above developments and as disclosed in some other portions of this report, no other significant event occurred that would have a material impact on the registrant and its subsidiaries, and no other known trend, event or uncertainty came about that had or were reasonably expected to have a material favorable or unfavorable impact on revenues or income from continuing operations, since the end of the most recently completed fiscal year. There were also no significant elements of income or loss that did not arise from the continuing operations of the registrant and its subsidiaries.

Other than those disclosed above, no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons entities or other persons were created during the interim period. There were also no events that would trigger substantial direct or contingent financial obligations or cause any default or acceleration of an existing obligation.

Likewise, there were no other material changes made in such items as: accounting principles & practices, estimates inherent in the preparation of financial statements, status of long-term contracts, changes in the composition of the issuer, and reporting entity resulting from business combinations or dispositions.

Lastly, there were no changes in estimates of amounts reported in prior interim period and financial year that would have a material effect in the current interim period.

4. Material Adjustments

There were no material, non-recurring adjustments made during period that would require appropriate disclosures. All other adjustments are of a normal recurring nature.

5. Contingencies

There are legal cases filed against certain subsidiaries in the normal course of business. Management and its legal counsel believe that the subsidiaries have substantial legal and factual bases for their position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

1) **AGING OF RECEIVABLES**
AS OF : **SEP 30/2010**

	30 Days	60 Days	90 Days	Over 90 Days	Total
A/R - Trade:					
Power Distribution Customers	730,157	76,024	19,341	92,961	918,483
Power Generation Customers	4,198,197	91,361	670,313	972,311	5,932,182
Management & Other Services Customers	4,908	5,948	3,413	0	14,269
Sub-total - A/R - Trade	4,933,262	173,333	693,067	1,065,272	6,864,934
Less : Allowance for Doubtful Accounts					323,395
Net Trade Receivables					6,541,539
A/R - Non Trade	340,618	134,016	29,128	290,133	793,895
Grand Total	5,273,880	307,349	722,195	1,355,405	7,335,434

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2) **ACCOUNTS RECEIVABLE DESCRIPTION**

Type of Receivable	Nature / Description	Collection Period
Trade	uncollected billings to customers for sale of power, goods and services	30 - 60 days
Non-Trade	claims, operating cash advances and advances to suppliers & employees	30 - 120 days

3) **NORMAL OPERATING CYCLE**

Power Subsidiaries
Distribution - 60 days
Generation - 65 days