

ABOITIZ CORE VALUES

In AboitizPower, good governance begins with its strong foundational core values of fairness, prudence, integrity, respect for the individual and diverse cultures and work ethics that live corporate social responsibility on a day to day basis. These core values are continually refreshed and enlivened through modern practices as the Company moves forward to deliver on its brand promise of finding better solutions for a better future to give to the community it serves. The Company remains connected to its historical roots and to its neighboring communities where it does business, recognizing that ultimately, it has the power to enrich the future of communities.

ABOITIZ POWER CORPORATE GOVERNANCE PRINCIPLES

The Company understands that good governance not only makes sense; but that it is the only sustainable way forward. AboitizPower recognizes that good corporate governance practices create value for the company and its businesses. The Company adheres to eleven core principles and practices of corporate governance, namely: (i) the *independence* of the Company's personality from that of its Board, officers and employees; (ii) the view that the Company has its own distinct rights and duties; (iii) that the Board has the *original power to decide* the Company's policies; (iv) that the Company can demand loyalty from its Board, officers and employees; (v) that the Company's business must be pursued through a *long term sustainability strategy*; (vi) that shareholders and stakeholders must be treated *Equitably and with Fairness*; (vii) a system of *Accountability*; (viii) *Transparency* in corporate operations and company reports; (ix) an *Ethical* business; (x) *Corporate Social Responsibility*; and (xi) *Sustainability and Environmental Compliance*.

The Company's corporate governance practices consist of a Board culture that fosters collegiality, promotes independent mindedness of directors, creates an environment of candidness and free discussion of ideas, opinions and feedback from directors to team members; fully functioning Board Committees; open and robust lines of communication on all levels within the corporate structure and a professional management team.

The AboitizPower Board is committed to performing its roles in ensuring accountability of past actions (e.g. report to shareholders, legal and regulatory compliance and audit reports review) and monitoring and supervision of executive performance, financial results and budgets and possible corrective action, and its roles in determining future corporate strategies and in the making of present and future policies. In pursuit of the latter role, the Board held its annual Board Retreat on November 11, 2011 in Mactan Island, Cebu to discuss both strategic roadmap and policies.

GOVERNANCE MECHANISMS FOR COMPANIES WITH CONTROLLING SHAREHOLDERS

The Company, the Board of Directors, and Management accept their fiduciary duties owed to the Company's stakeholders and are careful to exercise these duties within the context of its ownership structure and the social, cultural, political and economic environs of the Company. The Company acknowledges that the AboitizPower ownership structure may be categorized as a firm with controlling shareholder under the Bebchuk and Hamdani Harvard study model and is mindful of putting in place the appropriate corporate governance controls to avoid insider opportunism. More importantly, the Board and the Management team govern the Company as responsible owners because they believe that this contributes to increased corporate and stakeholder value.

The Board recognizes the independence of the Company from that of the Board and management and thus is committed to governance practices that will restrict insider opportunism and diversion of shareholder value. The Company is also committed to unhampered exercise of the minority shareholder protection and empowerment provisions under the Corporation Code of the Philippines. These statutory rules include the One Share-One Vote rule, Cumulative Voting, and supermajority vote for certain corporate acts, giving the minority shareholder the ability to influence Board composition (including Independent Directors), Board compensation, amendment of the Company's Articles and By-laws, and the treatment of Board duties as a high level of fiduciary responsibilities. Current Company procedures and mechanisms require accurate and timely disclosures for transparency of process, and insider trading and trading blackout guidelines are intended to prevent controlling shareholder opportunism.

The AboitizPower Board is comprised of nine Directors. To promote critical review and control of the management process, the Company's Directors, are non-executive and independent of Management, except for the President & CEO, Mr. Erramon I. Aboitiz, Executive Vice President & Chief Operating Officer - Power Generation Group, Mr. Antonio R. Moraza, and Executive Vice President & Chief Operating Officer - Power Generation Group, Mr. Jaime Jose Y. Aboitiz, who are part of the management team. The Board includes three highly competent and dynamic Independent Non-executive Directors to whom shareholder concerns can also be conveyed. Independent Directors are not subject to firing by management or by the Company's controlling shareholders since they are selected through the Board Corporate Governance Committee's process and in accordance with the requirements of the Philippine Securities and Exchange Commission (SEC), are elected by the shareholders at large. This process supports minority shareholder protection and empowerment.

Pursuant to the One Share-One Vote rule, the Company does not have any arrangements that separate voting rights and cash flow rights. All shareholders are entitled to voting and dividend rights. These ensure that the Company's controlling shareholders' interests are aligned with the minority shareholders' interests.

AboitizPower has adopted company policies related parties transactions that requiring the full disclosure thereof in the Company's financial statements and in other Company reports. The Company's related party transactions include, among others, written service level agreements with its affiliates and subsidiaries for human resources, internal audit, legal, treasury and corporate finance services, guarantees of credit accommodations of subsidiaries and affiliates; and intercompany advances for working capital requirements of subsidiaries and affiliates. The Company does not set thresholds for disclosure of related party transactions but rather fully discloses all related party transactions regardless of amounts in compliance with existing accounting standards, or ensures that they have the character of arm's length transactions. (See details in the Audited Financial Statements)

The Company complies with the Philippine Corporation Code rules on voting for specific corporate acts where approval of specific types of related party transactions in the Board and in shareholders meetings levels may be required. The Company's Independent Directors and the Board Audit Committee play an important role in reviewing significant related party transactions. The Company's related party transactions are typically agreements entered into in the ordinary course of business to maximize efficiencies and realize cost synergies. These are reported to the Board as they are entered into.

ENHANCING ABOITIZPOWER COMPETITIVENESS THROUGH CORPORATE GOVERNANCE

Sound corporate governance principles are the foundation upon which the trust of investors is built on. The Company views its corporate existence, goals and strategies on a long term growth and sustainable horizon. We believe that a balancing of all stakeholders' interests is necessary to avoid, being locked in a "short termism" business mindset. The Company's corporate governance, rooted on a values-based corporate culture for a sustainable future, is its primary benchmark for corporate governance. AboitizPower is committed to preserving its fundamental core values and embedding these in its daily business practices, going beyond a mere "tick the box" corporate governance scorecard.

The corporate governance principles practiced by the Company is aimed at achieving sustainable growth. The Company remains cognizant of its role in finding better ways to do its business and at the same time striking a "Three P" balance for corporate governance and sustainability –, i.e. *People, Profit and Planet*. It endeavors to live up to its brand promise of increasing shareholder value based on a commitment to corporate governance best practices.

As a Philippine company listed on the Philippine Stock Exchange, Inc. (PSE), the Company is subject to a number of laws and rules that affect it and its subsidiaries' governance. Major statutes of which the Company is compliant, include, among others: the Corporation Code of the Philippines, the Securities Regulation Code, the Labor Code of the Philippines, the Electric Power Industry Reform Act, the Renewable Energy Act, the Anti-Pilferage of Electricity and Theft of Electricity Transmission Lines Act, Clean Air Act, Clean Water Act, Renewable Energy Law and other applicable statutes, implementing rules, regulations, guidelines, and governing circulars and policies of the Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE), the Department of Energy (DOE), Department of Environment and Natural Resources (DENR), the Energy Regulatory Commission (ERC), the Wholesale Electricity Spot Market, the Philippine Grid Code, the Philippine Distribution Code, and other relevant administrative agencies with oversight of its core businesses. Its corporate governance policies are found in its Articles of Incorporation and By-Laws, its Amended Manual of Corporate Governance, Code of Ethics, Directors' code of ethics, Board and Board Committees internal work procedure rules, Information Systems Management and Security Policies, its Enterprise Risk Management Policies and in other Company and Aboitiz group policies and guidelines.

Since the Company went public in 2007, it has participated in the Institute of Corporate Directors (ICD) SEC Corporate Governance Scorecard exercise for Philippine companies. In 2010, its corporate governance practices were recognized by the ICD through the annual ICD corporate governance awards. The Company's corporate governance record was recently awarded by the ICD a gold status. The Company has also notably improved its ranking from being silver to gold awardee with an average score of 96.90% from the past year's 91.60%. In 2011, Asiamoney recognized AboitizPower's excellence in its corporate governance practices in comparison with its peers in Asia.

COMPLIANCE WITH THE SEC CODE OF CORPORATE GOVERNANCE

The Manual of Corporate Governance (Manual) states that corporate governance is a necessary component of what constitutes sound strategic business management and joins the Board, the management and employees to undertake every effort necessary to create this Company wide awareness as part of the Aboitiz corporate culture. The Manual was approved by the Board at its regular meeting on April 26, 2007, shortly before it became a publicly listed company. Since its adoption, the Company has reviewed, revised, updated and amended the Manual through subsequent Board actions in keeping with evolving best practices. AboitizPower is committed to complying with best practices corporate governance whenever possible, including the continued compliance with the SEC's form corporate governance manual. The Board regularly reviews the Manual in order to update its practices in line with the SEC's and the PSE's regulatory amendments and global developments. The SEC approved on March 31, 2011 recent amendments by Board of the Manual. To keep updated and consistent with current rules and best practices, the Board Corporate Governance Committee is revisiting the Manual for further changes .

The Manual can be found on the Company's website: <http://www.aboitizpower.com/AP/5712:apvx-ethics.html>.

COMPANY VISION: A BETTER FUTURE

The Company's vision is to actively develop and offer better energy solutions to meet the Philippines growing energy demands while committing to sustain the Earth's limited resources. As a publicly listed company, the Company's investment focus is for its businesses to provide reliable and ample power supply when needed, and to ensure that the supply of electricity is provided at a reasonable and competitive price. The Company believes it is its responsibility to accomplish these goals with the least possible adverse effect on the environment.

AboitizPower's brand promise is Better Solutions. That is, AboitizPower is actively developing and offering effective energy solutions to meet the Philippines' energy demands and build commitment to sustain Earth's resources. Its mission is to find better solutions to address the needs of our customers and to bring new ideas to market whilst exercising responsibility to sustain earth's resources and that of our environment, encourage energy conservation and efficiency while growing the energy supply but also encouraging the adoption of renewable energy. AboitizPower brand attributes, namely, Pro-active, Expert and Responsible, directs the Company to anticipate and meet customer needs; to constantly acquire, share and apply power knowledge and commit to sustain earth's resources and the environment, respectively. AboitizPower considers it a responsibility to provide reliable and ample power supply when needed, to ensure that the supply of electricity is provided at a reasonable and competitive price and lastly, to accomplish the first two duties with the least possible adverse effects to the environment. Its *Cleanergy Brand* reflects this vision of AboitizPower: to offer energy solutions that leave a lighter impact on Earth's climate and its limited resources and to promote the usage of clean and renewable energy from sources that are sustainable and cleaner than fossil fuels. *(See details of Cleanergy Brand in Sustainability Report)*

AN ETHICAL BUSINESS

The Aboitiz Code of Ethics and Business Conduct adopted by the Company in 2002 sets out how the Executive management, team leaders and team members can achieve and maintain ethical standards in the Company's day to day operations and summarizes the Company's fundamental policies and directives. The Code of Ethics and Business Conduct clearly sets the standards, policies and procedures on proper business conduct with co-employees, shareholders, investors, suppliers, customers, analysts, creditor and financial institutions, fair dealings, conflicts of interest and related party transactions, inappropriate gifts and favors, appropriation of corporate opportunities, dealing with proprietary and confidential information and Company system and assets, use and misuse of inside information, fair and truthful disclosures to the public, maintenance of accurate books and records, respect and dignity accorded to others, promotion of safe and healthy working environment and the enforcement and administration of the Code of Ethics. The Code of Ethics and Business Conduct guides employees, the Board and Management in the Company's day to day business operations of in confronting the myriad issues that arise in a business as diverse and dynamic as that of the Company. The detailed implementation of the Code of Ethics and Business Conduct is overseen by the Board Corporate Governance Committee, by the Chief Compliance Officer as well as the functional team leaders in the Company in coordination with AEV Corporate Center.

All newly hired employees in the Company attend a new-hirees' seminar that includes an orientation on the Company's Manual of Corporate Governance and Code of Ethics and Business Conduct. In addition, the Office of the Corporate Secretary conducts a group-wide formal Corporate Governance Seminar for all employees, including management and executives. Invited speakers and guests for the recently concluded Corporate Governance Seminar include the Director of the SEC and key officers of the PSE. These annual seminars are conducted to inculcate in and refresh all employees' awareness and understanding of the Manual and the Code and the underlying principles of corporate governance and ethical behavior and conduct. These corporate governance seminars are mandatory for officers and employees who have to sign an acknowledgment of attendance. All attendees receive compliance certificates for such seminars.

All employees have an individual responsibility to ensure that business practices adhere to the rules of the Code of Ethics and Business Conduct. Generally, no employee or officer seek or has sought exemptions from the application of the corporate governance rules and guidelines of the Company. Adherence to the Code of Ethics and Business Conduct is actively encouraged. Employees are empowered to exercise their sound judgment and decision in day to day life, and demonstrate one's commitment to the core values of the Company.

The Code of Business Ethics can be found at the Company's website: <http://www.aboitzpower.com/AP/5712:apvx-ethics.html>

ABOITIZPOWER OWNERSHIP STRUCTURE

The share capital of the Company consists of one class of listed common shares and a class of non-listed preferred shares. All common shares are voting shares following the rule of One share - One vote. The preferred shares are non-voting, non-participating, non-convertible, cumulative, re-issuable shares and may be issued from time to time by the Board in one or more series. These preferred shares which are issued to financial institutions or financial market intermediaries are treated by the Company and its auditors as debt instruments and disclosed as such in its books in conformity with the Philippine Accounting Standards (which adopt the International Financial Reporting Standards. *(See Management's Discussion and Analysis or Plan of Action and the Company's Financial Statements)*

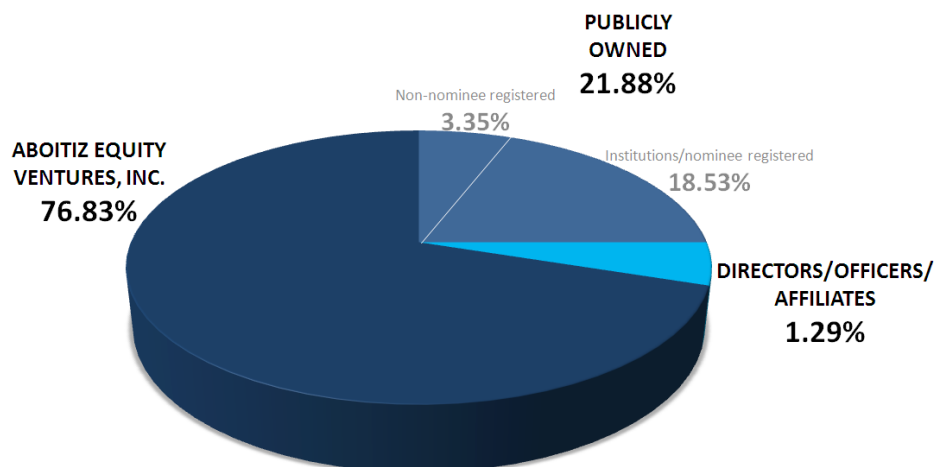
According to the share register kept by The Hong Kong and Shanghai Banking Corporation Limited, the Company's newly-appointed stock and transfer agent, as of March 30, 2012, Aboitiz had 532 shareholders. As of the same period, Aboitiz Equity Ventures, Inc. (AEV), another publicly-listed holding company, owned 5,653,763,954 or 76.83% of the 7,358,604,307 of the total outstanding and common stock entitled to vote. Of the publicly held shares, 18.53% are owned by institutions and/or are nominee-registered (10.44% Filipino & 8.09% Foreign), i.e., held off record by banks, brokers and /or nominees, such as the PCD Nominee Corp. This means that the actual shareholder is not displayed in the share register or included in shareholding statistics. As a result, the ultimate shareholder of such nominee-registered shares does not participate in shareholder votes and other actions, unless otherwise represented by proxy or nominee. The Company has exerted efforts to extend the communication channels between the Company and the institutional shareholders through its Investor Relations Office and to the nominee registered shareholders through the PCD Nominee Corp.

Here is a general view of shareholders composition.

AEV is, in turn, publicly owned by 10,054 shareholders as of March 30, 2012.

The Company issued retail Bonds to the public on April 14, 2009 and these bonds are listed on the Philippine Dealing and Exchange Corporation for greater liquidity. These bonds are treated and indebtedness in the books of the Company pursuant to international and Philippine Accounting Standards. The Company recently disclosed that the 5-year retail bonds will be redeemed while the 3-year retail bonds are expiring on April 30, 2012.

For more information on the Company's shareholders see the Company website: www.aboitzpower.com.



THE BOARD'S VISION AND MISSION

The Board provides leadership and stewardship in the performance of its duties to the Company, its stockholders, and all other stakeholders. The purpose of the Board is to represent and protect the interests of the owners of the business, as well as other key external stakeholders, regardless of category, within the boundaries of its corporate charter, and all relevant statutes and legal regulations and rules. The primary purpose of the Company's Board revolves around governing the various businesses in which it has a direct interest. In addition, its responsibilities extend to other stakeholders in respect of compliance with regulatory standards; the provision of appropriate information and updates; and the effective representation and protection of the Aboitiz brand and reputation. The Board is responsible for the success of the Company through its supervision and oversight over affairs in a responsible and effective manner.

CHALLENGES & STRATEGIES

The top challenge for AboitizPower today is to pursue continued and sustained growth of its businesses within its relevant political and regulatory universe, matching this growth with the appropriate organizational capability, and building and maintaining its corporate brand for the benefit of all its stakeholders. The Company believes that available, reliable and affordable electricity is the lifeblood of the country, fueling both the economy and individual opportunity. The Company therefore considers it its responsibility to provide reliable and ample power supply, when needed, to ensure that the supply of electricity is provided at a reasonable and competitive price; and to accomplish the first two duties with the least possible adverse effects on our environment.

The success of AboitizPower's mission is aligned to the right answers to the following questions: How to proactively work with its customers? How to apply its expertise and provide better solutions? How to exercise responsibility to sustain the earth's resources and environment?

To meet these challenges, AboitizPower has strategically developed functional teams and boards along the lines of its core businesses, namely, AP Generation, AP Distribution, AP Regulatory, AP Sales, Trading & Marketing, AP Business & Projects Development, and the Office of the Chief Finance Officer. These functional boards oversee the specific BUs within the AboitizPower group of companies. The key roles of AP Corporate Center in relation to the AboitizPower Business Units are to assist and provide general and specific expertise, to learn and propagate best practices among the Business Units, to take part and drive the strategic planning process, to set operating parameters, to source top talent, to identify synergies and determine group-wide policies and help improve and uplift the overall performance of all Business Units. To further support AboitizPower in the successful execution of its business strategies, it has entered into written service level agreements with AEV Corporate Center for its additional Human Resources services, Treasury, Accounting, Risk Management, Legal & Corporate, and Computer and Information Technology services. These shared services are intended to provide corporate governance controls, knowledge building, and a business partnership net for AboitizPower for itself, as well for the Company's subsidiaries and affiliates, in order to keep it aligned to its strategies and anchored on solid grounds.

AboitizPower's own Corporate Center had the following strategic goals and initiatives for 2011:

- instilling best practices and bring all business units to the same level of excellence;
- instituting sustainability initiatives across the group
- building partnerships with internal and external specialists and experts critical to the success of its BUs
- building up talent and competencies within the group
- building organizational capacity
- crafting strategic plans, developing projections tied to long-term goals and systematically monitoring implementation of strategic objectives
- establishing its enterprise risk management system across the group
- maximizing the synergy across group by leveraging a centralized corporate functions
- developing a system that consolidates the information on procurement of certain BUs
- pursuing Greenfield projects and strategic alliances
- implementing a disciplined Information Technology planning process
- protecting and enhancing corporate reputation and brand.
- maintain focus on energy projects that leverage on AboitizPower expertise

AboitizPower held its Annual Strategy Planning Management Session in January 2011. At this Annual Strategic Planning Management Sessions, the Board of Directors, top executives and key management and functional team leaders of the Company, together with key officers and management teams of AboitizPower and AEV discuss and give feedback on the strategic roadmap and business plans of the Company for the next years. Typically, the AboitizPower CEO, group CEOs, BU CEO, CFOs, officers and managers listen, review, discuss and generally participate in the crafting of the overall and specific business strategies of the Company and its BUs. The management team and executives review industry and market statistics, milestones and benchmarks and the management team's assessments of the challenges that face the Company.

ALIGNMENT AND EXECUTION OF STRATEGIES

In 2011, AboitizPower laid the foundation for growth and expansion of generation capacity and the execution of the next level business strategies. The Company continued with its enterprise risk management system building for the Company and for its Business Units, in recognition of the challenges ahead on the road to sustained growth. AboitizPower executed protocols and organizational structures for streamlining of business processes, and worked on goal setting and alignment of corporate governance standards, creating and nurturing strategic business partnerships, assessing the directions of the power industry, engaging in the "Aboitization" of corporate culture for newly acquired business, and generally gearing up for a planned growth of its businesses. Such alignment and execution of goals follows the framework of the strategic balanced scorecard, taking into account the interest of AboitizPower's stakeholders.

This year, AboitizPower adopted the use of Success Factors web-based technology tool (or some of its modules) for the alignment of strategies and goals to certain Business Units of the Company's as it is already being utilized in the Distribution Businesses. Success Factors is a tool enabling alignment of goals from the Chief Executive Officer (CEO) all the way down to the team leaders and members of its organization even through to the BUs. Success Factors is an on-demand Performance and Talent Management software module enabling all team members in the organization to create their individual goals on line and allowing employees to understand what is expected from them, giving them a sense of accountability on their deliverables in relation to the alignment to corporate goals. It provides a very critical key in maintaining clear and unobstructed line of sight - employees are able to see and appreciate how their goals contribute to the Company's overall goals. Certain of the Company's Distribution businesses already use Success Factors.

The Board has broad oversight over the execution of Company strategy.

The Success Factors Performance Management technology allows AboitizPower team leaders and members to set goals and monitor progress of each employee's goals and determine gaps in skills and competencies. Through Success Factors suite of tools, each employee can view his tangible contribution and alignment of his corporate and personal goals all the way through to top management whilst top management, i.e., the Chief Executive Officer (CEO), can also view the cascade of his goals to all employees. This accessible view includes the status of the execution of all goals of Team AboitizPower.

For performance, the Board Corporate Governance Committee organizes the assessment of the performance of the CEO by the members of the Board, while Corporate HR provides the numerous annual key officers, performance and competence assessment reviews, whether it be a 360 degrees survey, a Key Talent Review, a Success Factors Goals accomplishment review and other annual job performance measures.

AboitizPower's faithful compliance with the tenets of good corporate governance has earned it the respect and recognition of its peers as follows, not only in the Philippines, but also abroad. Here are some of the awards it received:

- One of Asia's Best Companies for 2010, landing in the top three among 16 companies nominated for the Most Convincing and Coherent Strategy-Philippines category as recognized by Euromoney. The Euromoney recognition was based on the nomination and feedback of analysts from leading banks and research institutes, on criterion of market strength, profitability, growth and potential and quality of management and earnings.
- One of the Philippines' Large Cap Corporate of the Year for 2010 in its Asia's Best-Managed Companies awards as recognized by Asiamoney Magazine.
- The Company's inclusion in the Morgan Stanley Capital International Philippines (MSCI) Index. This citation makes the Company's securities as one of the benchmarks of fund managers' portfolios and shows the trust reposed to the Company by existing and potential investors, shareholders, investment and financing institutions, and regulatory bodies.
- Best CEO and Chief Financial Officer (CFO) which were bestowed by Finance Asia to the Company's CEO and CFO.
- Management Association of the Philippines award for the Company's CEO.

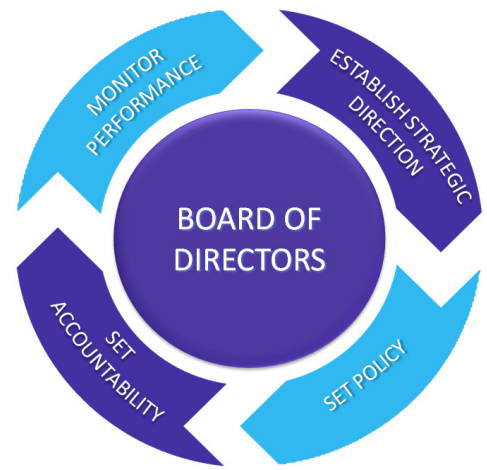
These awards, aside from the honor they have conferred on the Company, affirm that the Company is on the right track in attaining its goals while adhering to the eleven corporate governance principles.

INFORMATION SECURITY POLICY AND ENTERPRISE RISK MANAGEMENT

The Company recognizes the value and importance of information in business activities, products and services, hence it established its Information Security Management System (ISMS) with the objectives of (a) the required level of confidentiality for any information is always maintained. (b) the integrity of the information is always ensured and (c) the required information is always available to authorized users. The Information Security Policy also seeks to guide users on effective information-handling and for them to respond to security incidents by conducting information security awareness, education and training. It is the responsibility of the users to adhere to this policy.

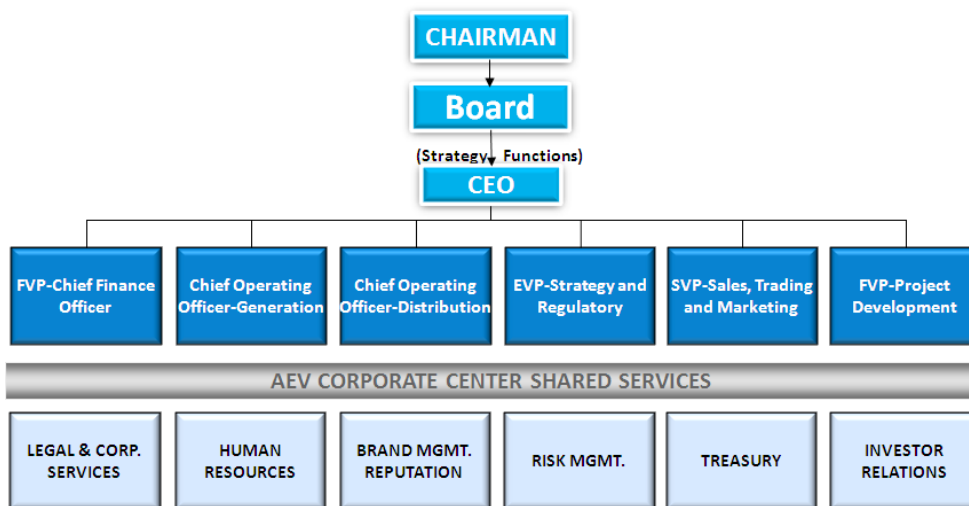
The Company is committed to protect this information by implementing its ISMS to enable the organization as a whole, to identify, assess, mitigate and manage the Company's information security risks in line with the *AEV Enterprise Risk Management Philosophy* and also to ensure business management continuity. The Information Security Steering Committee (ISSC) is responsible for the maintenance, effectiveness and applicability of the policy to the organization. Detailed policies, procedures, standards, and guidelines are continually developed to support this Information Security Policy. Compliance to this Information Security Policy will be checked through audits and violations shall be addressed and corresponding disciplinary actions and sanctions must be in line and consistent with the AEV Manual on Personnel Policies and Procedures. This Information Security Policy is reviewed on an annual basis.

Continuing the momentum from our Enterprise Risk Management (ERM) Program Launch in 2010, AEV thru its ERM Group organized the gathering of over 100 risk management leaders and professionals across all the Aboitiz Businesses for the first ever Aboitiz Group ERM Forum last February 20, 2012 at Marriot Cebu.



ORGANIZATIONAL STRUCTURE

The AboitizPower organizational structure set below, outlines the delineation of responsibilities of the functional boards/teams that execute and oversee the Company's strategies, goals, vision and mission.



The Company's corporate operational strategy is for each of the core business, namely Generation and Distribution, to be managed by separate functional management boards, namely, the AP Generation Companies Management Board and the AP Distribution Utilities Management Board. They are responsible for the alignment of strategies and strategy execution for each of the BUs.

In addition to the Board Committees, the Company also participates in AEV Corporate Center Group Human Resources Committee, and AEV Legal Executive Committee (LexCom), Group ManCom, among others.

The Company's BUs have their respective strategy planning sessions. These form the integral components of the Company's overall formulation and execution of AboitizPower's policies and strategies. These are presented to the Group CEOs and Group Mancom.

BOARD RESPONSIBILITY

The Company believes that compliance with the principles of good governance begins with the Board of Directors. The Director's office is one of utmost trust and confidence. The Board of Directors is expected to act in the best interest of the Company in a manner characterized by transparency, accountability and fairness in the exercise of leadership in directing AboitizPower towards a sustainable growth.

The Company's Board of Directors sets the standards for the Company's corporate governance practices. The Board of Directors is committed to the adoption and observance of best practices in corporate governance as well as compliance with all relevant laws, regulations and codes of business practice.

It is the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility. It exercises these duties in the best interests of AboitizPower, its shareholders and other stakeholders as provided under the Manual. The Board conducts itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities. It shall provide an independent check on Management.

The Board is actively engaged in discussions of strategic business issues of the Company and the Directors are consulted for their invaluable inputs through the special strategy board meetings, the informal director's lunches, dinners and gatherings with the management teams. The Board Corporate Governance Committee recently formalized these gatherings into an annual Board Retreat in an atmosphere of relaxed, open and intellectually exchange. The Board Retreat held on November 11, 2011 was well attended and participated by all members of the Board of Directors of the Company.

As part of its director development program and to ensure that the members of the Board remain up to date with business and legal developments, the Board is provided regular legal bulletins, and invited to economic and industry-specific briefings, and strategy and management conferences within the Aboitiz group. All directors, including the Independent Directors, actively participate in these activities. The Board of Directors of the Company are likewise required to attend/participate in corporate governance seminars to further enhance their knowledge and capabilities.

AN EFFECTIVE BOARD: SELECTION & COMPOSITION

For an effective Board, the Company takes serious consideration of the selection of Members of the Board. The is based on the following qualifications: (i) ownership of at least one (1) share of stock of AboitizPower in compliance with the Corporation Code of the Philippines; (ii) university education or sufficient experience in managing the business, in lieu of a college education, (iii) at least twenty one (21) years old; (iv) proven to possess integrity and probity; (iv) no conflict of interest; (v) able to devote his time in fulfilling his duties and responsibilities as Director; (vi) practical understanding of the businesses of the Company; (viii) membership in good standing in relevant industry, business or professional organizations; and (ix) previous business experience. Each

member of the Board is identified and selected for the depth of experience and wisdom he is expected to provide to the Company, considering that the Company's business is a unique aggrupration of businesses, requiring the capability to understand power industry financials and technical matters.

Every year, each Director is selected through a process intended to appoint a diverse mix of highly competent directors and officers with in-depth knowledge and experience in the core industries of AboitizPower or corporate management and financial expertise. Any shareholder may nominate a director and Independent Director. Nominees for directors are submitted to the Corporate Governance Committee (to which the Nominations and Compensation Committee has been merged into). The overall procedure is in compliance with the Amended Implementing Rules and Regulations of the Securities Regulation Code.

Each member of the Board holds office for one year until his successor is elected at the next annual shareholders' meeting in accordance with the Corporation Code, the Company's By-Laws and the SEC guidelines. The Company allows shareholders to elect board members individually through the nominations process. At annual shareholders meetings, in accordance with the Corporation Code, the Company follows the rule of One- Share-One vote. Thus, minority shareholders can influence the board composition by way of cumulative voting rights. Cumulative voting right is a statutory right allowed in accordance with the Corporation Code of the Philippines.

The roles and responsibilities of a member of the Board of Directors are clearly defined in the Company's Amended By-Laws and in the Manual. The main purpose of the Board, as enunciated in the Manual, is to represent and protect the interests of the owners of the business, i.e., our shareholders, and all other key external stakeholders, regardless of category, in accordance with the Company's corporate charter and applicable laws.

The AboitizPower Board recognizes that, for an effective corporate governance system, senior executives must constantly review and assimilate the principles of corporate governance consistently with the commitment of the Board of Directors. All members of the Board of Directors and senior management executives have completed accredited corporate governance seminars. Pursuant to this directive, the Office of the Compliance Officer has also rolled out scheduled corporate governance seminars for all employees in the Company from rank and file, middle to top management. Under the corporate governance system of the Company, the Board oversees and controls AboitizPower's management performance and strategic directions, with the objective of holding the Board accountable to all its stakeholders.

The Company is compliant with Section 38 of the Securities Regulation Code and Rule 38 of the Amended Implementing Rules, requiring public companies to have independent directors constituting 20% of the total number of directors. As defined in the Securities Regulation Code, an independent director is "is a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having a relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Company is cognizant of the new SEC Memorandum Circular No. 9, Series of 2011, imposing term limits for Independent Directors aimed at enhancing the effectiveness of Independent Directors and at encouraging the infusion of fresh ideas to a Board of Directors.

The Company's Independent Directors are not encumbered with any management responsibility and are free from any business or other relationship with the Company that could materially interfere with their exercise of independent unfettered judgment as members of the Board. More importantly the independent directors chosen to the Company's Board are independently minded professionals. As recommended by the Bebchuk and Hamdani Harvard study, in assessing Controlled shareholder companies' corporate governance scorecard, it is but appropriate that substantial weight should be given to director independence. In this regard, there is nothing in the Company's By-Laws and in any shareholder agreements or arrangements that constrain the independent director's ability to vote independently.

At the May 16, 2011 Annual Shareholders' Meeting, the shareholders elected the following Board members for the 2011-2012 term.

Directors	
Enrique M. Aboitiz Jr.	Chairman of the Board
Jon Ramon Aboitiz	Vice Chariman of the Board
Erramon I. Aboitiz	Director
Mikel A. Aboitiz	Director
Jaime Jose Y. Aboitiz	Director
Antonio R. Moraza	Director
Jose R. Facundo	Independent Director
Romeo L. Bernardo	Independent Director
Jakob Disch	Independent Director

Members of the Board annually assess the Board's, the CEO's and their own individual performance through a Board Assessment Review initiated by the Board Corporate Governance Committee. The Board Corporate Governance Committee recently conducted the 2011 Board Self-Assessment Review and the CEO assessment last February 1, 2012. Results of the Board, Self and CEO Assessments are presented to the Board Corporate Governance Committee Meetings and circulated to the Board for their feedback.

The Board meeting attendance of individual directors is reported to the Board Corporate Governance Committee by way of the Board Performance Report and the submission of the SEC Certificate of Board Attendance. The attendance of the directors at board meetings was exemplary as shown by the overall

percentage of 97.53% attendance record for the nine regular and special strategy meetings for 2011 for each director and same percentage for attendance of directors per meetings, as can be shown below.

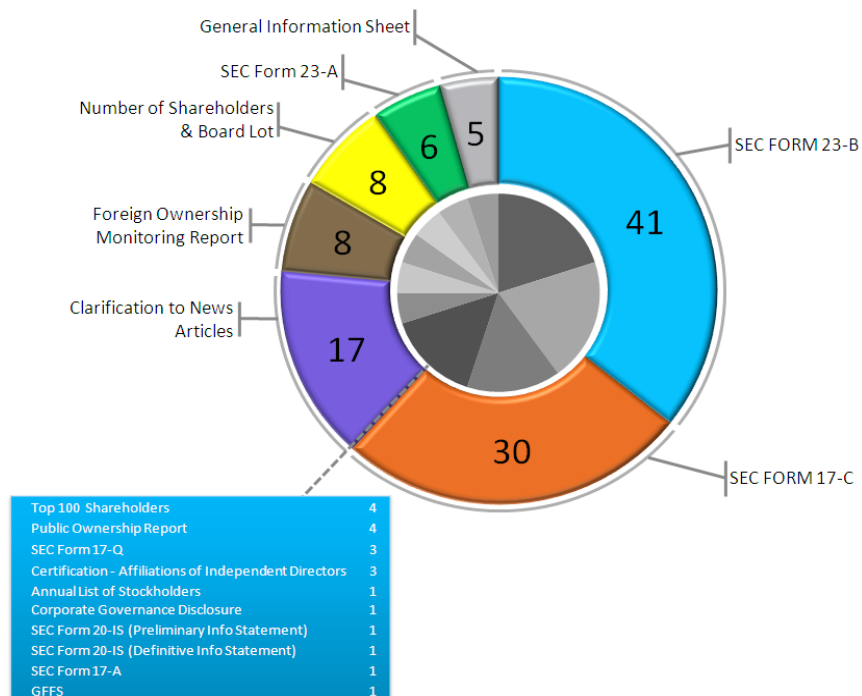
DIRECTORS	SPECIAL MEETING EXECUTIVE STRATEGY SESSION	REGULAR MEETING	SPECIAL MEETING	REGULAR MEETING	REGULAR MEETING	REGULAR MEETING	REGULAR MEETING	REGULAR MEETING	SPECIAL BOARD STRATEGY SESSION	REGULAR MEETING	TOTAL NO. OF MEETINGS ATTENDED BY EACH DIRECTOR	PERCENTAGE OF MEETINGS ATTENDED BY EACH DIRECTOR
	Jan. 24, 2011	Feb. 4, 2011	March 3, 2011	March 30, 2012	May 16, 2011	July 27, 2011	Sept. 30, 2011	Nov. 11, 2011	Dec. 9, 2011			
ENRIQUE M. ABOITIZ, JR.	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
JON RAMON ABOITIZ	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
ERRAMON I. ABOITIZ	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
ANTONIO R. MORAZA	P	P	P	A	P	P	P	P	P	P	8/9	88.88%
MIKEL A. ABOITIZ	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
JAIME JOSE Y. ABOITIZ	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
JOSE R. FACUNDO, Independent Director	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
ROMEO L. BERNARDO, Independent Director	P	P	P	P	P	P	P	P	P	P	9/9	100.00%
JAKOB G. DISCH, Independent Director	P	P	P	P	P	P	P	P	P	A	8/9	88.00%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	9/9	9/9	9/9	8/9	9/9	9/9	9/9	9/9	9/9	8/9		97.53%
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100.00%	100.00%	100.00%	88.88%	100.00%	100.00%	100.00%	100.00%	100.00%	88.88%		97.53%

The Company's directors are respected individuals of proven competence, integrity and known to be independently-minded professionals. The Board is led by a Chairman who is very knowledgeable about the Company's core businesses, seasoned in corporate finance with a deep commitment to corporate social responsibility. The Chairman, who is a non-executive director, ensures that the Board functions in an effective, robust and collegial manner. Despite relationship of consanguinity between the Company's CEO and the Chairman of the Board, all decisions and dealings are done in a professional manner in keeping with an Aboitiz Family constitution that sets strict standards for each member's work involvement in the Aboitiz group companies. (See Section on Information on Directors and Officers)

PSE AND SEC COMPLIANCE REPORT

The Office of the Corporate Secretary and Chief Compliance Officer regularly monitor the Company's compliance with the PSE and the SEC regulatory requirements. The Company is fully compliant for the year 2011.

Below is the Company's PSE and SEC Reportorial Compliance Record:



MONITORING AND CONTROL

The Board of Directors was fully compliant with the Company's Manual for the year 2011. The Manual clearly defines the Board's responsibilities and the corporate governance policy of the Company. The Board acknowledges that the attainment of corporate goals is by no small measure supported by the commitment to the principles of corporate governance. Proof of the Board's strict adherence to the Manual is the Company's clear record of compliance with SEC and PSE rules and regulations. The Manual was adopted with AboitizPower's vision and mission of proactively working with customers to anticipate the unique and diverse range of industrial, commercial, and residential energy needs and to build customer intimacy because the Company believes that customers deserve no less than the best service it can possibly give.

To continuously keep itself up-to-date with current best practices, the Company regularly reviews and updates its Manual on Corporate Governance. The Manual designates a Chief Compliance Officer and defines his duties as well as outlines a Plan of Compliance revolving around the Board of Directors, its composition, qualifications, roles and responsibilities, the delineation of the roles of the Chairman and the CEO, conflict of interest and business interest disclosures, Board meetings and quorum requirements, and adequate and timely information and accountability of audits. The Company's Manual also specifies the composition and duties of the newly created and restructured board committees, the qualifications of the Corporate Secretary, an information security management policy, a sustainability policy a risk management policy, communication process and training process, reportorial or disclosure system of the Company's corporate policies, shareholders' benefit statement and a monitoring and assessment system. The Chief Compliance Officer coordinates with the regulatory officers of the Company's BUs to ensure compliance with other laws as well as to ensure the checks and balances and mitigating penalty measures are imposed.

BOARD COMMITTEES

The Company's Board Committees are: Board Audit Committee, Board Risk Management Committee, and the Board Corporate Governance Committee. The Board recently approved the merger and creation of a Board Risk and Reputation Management Committee, the functions of which will be laid down in an amendment to the Manual.

Membership in the Board Committees is from the duly elected directors of the Company's Board of Directors as regular members assisted by key officers of the Company on ex-officio basis. These Board Committees hold meetings at least every quarterly basis to ensure that sound strategies for the Company's development are achieved.

BOARD CORPORATE GOVERNANCE COMMITTEE

The current Board Corporate Governance Committee is a union of the Nominations and Compensation Committee and the original corporate governance committee. This was created to assist the Board of Directors in formulating good governance policies and guidance and in selecting nominees for the Board of Directors, among other functions. In performing its duties, the Committee maintains an effective working relationship with the Board of Directors.

The Board Corporate Governance Committee represents the Board of Directors in discharging its responsibilities relating to AboitizPower governance practices, guidelines, selection and nomination of persons into Board and the Company's senior leadership roles, and issues on compensation for directors and salary guidance. Independent Directors comprise more than a majority of the voting members of the Board Corporate Governance Committee. The Board Corporate Governance Committee maintains linkages to the corporate governance team of AEV Corporate Center.

The table below shows the membership of the Board Corporate Governance Committee.

Board Corporate Governance Committee	
Jon Ramon Aboitiz	Chairman
Erramon I. Aboitiz	President and Chief Operating Officer
Jose R. Facundo	Independent Director
Romeo L. Bernardo	Independent Director
Jakob G. Disch	Independent Director
M. Jasmine S. Oporto	Ex-officio Member
Sebastian R. Lacson*	Ex-officio Member
Xavier J. Aboitiz	Ex-officio Member
Susan V. Valdez**	Ex-officio Member
<i>* Mr. Sebastian R. Lacson was member until November 8, 2011. He was replaced by Ms. Susan V. Valdez.</i>	
<i>** Ms. Susan V. Valdez was appointed as member on November 8, 2011.</i>	

No resolution of the Corporate Governance Committee can be approved without the vote of an Independent Director.

At the September 14, 2011 and February 1, 2012 meetings, the Board Corporate Governance Committee discussed the following matters:

September 14, 2011	February 1, 2012
Results of the Board, Self-Assessment 2009 vs. 2010 and CEO Evaluation 2010	Nominees for the Election as Members of the Board of Directors
Report on the attendance/participation on Corporate Governance Seminars conducted by the Legal and Corporate Services Team	Proposed agenda for the 2012 stockholders' meeting
Report on the attendance/participation on Corporate Governance Seminars conducted by the Legal and Corporate Services Team	Timeline for the preparation and proposed content of the information statement and annual report for the 2012 annual stockholders' meeting
Shareholders' Report and Updates	Salary Increase Guidance for 2012
Institute of Corporate Directors Scorecard Ratings from 2008 to 2010	Proposed Corporate Governance Report for the Annual Report
Compliance on PSE Rules on Minimum Float	Review of Senior Leadership Appointments
Review of Senior Leadership Appointments	2011 Statutory Compliance Report
Investor Relations Report	Board, Self-Assessment and CEO Assessment Forms
SEC and PSE Compliance	Corporate Governance Initiatives/Issues
Open Access Distribution Utility Board	Shareholder Services
PSE Briefings on Maharlika Board, Scripless Trading and ASEAN Linkages	Aboitiz Foundation, Inc. / Corporate Social Responsibility (CSR) Initiatives for 2012
	Investor Relations: 2011 Report and 2012 Program
	Renewal of the Liability Insurance of Directors and Officers

Attendance record of the Members of the Board Corporate Governance Committee has been exemplary. Individual directors' record of attendance at meetings of the Committee has been 94.44% and overall percentage of directors present at said meetings has been 93.75% as can be seen in the table.

Board Corporate Governance Committee Meetings				
COMMITTEE MEMBERS	Feb. 1, 2012	Sept. 14, 2011	TOTAL NO.	PERCENTAGE
			OF MEETINGS ATTENDED BY EACH MEMBER	OF ATTENDANCE
Jon Ramon Aboitiz, Chairman	P	P	2/2	100.00%
Erramon I. Aboitiz, Member	P	P	2/2	100.00%
Jose R. Facundo, Independent Director	P	P	2/2	100.00%
Romeo L. Bernardo, Independent Director	P	P	2/2	100.00%
Jakob G. Disch, Independent Director	A	P	1/2	50.00%
M. Jasmine S. Oporto, Ex-Officio Member	P	P	2/2	100.00%
Sebastian R. Lacson, Ex-officio Member*	P	-	1/1	100.00%
Xavier J. Aboitiz, Ex-officio Member	P	P	2/2	100.00%
Susan V. Valdez, Ex-officio Member**	-	P	1/1	100.00%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	7/8	8/8		94.44%
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	87.50%	100.00%	93.75%	
* Mr. Sebastian R. Lacson was member until November 8, 2011. He was replaced by Ms. Susan V. Valdez.				
** Ms. Susan V. Valdez was appointed as member on November 8, 2011.				

The annual performance assessment of the Chief Executive Officer and Board of Directors is conducted by the Board Corporate Governance Committee. The attendance of directors at Board meetings is reported to the Board Corporate Governance Committee through the Board Performance Report and the Certificate of Attendance. These reports were submitted to the SEC and PSE in early January 2012.

The Offices of the Corporate Secretary and Chief Compliance Officer, pursuing the mandate of the Board Corporate Governance Committee, approved the current written policies and procedures designed to ensure compliance with the PSE and SEC disclosure rules, as well as other disclosure requirements under existing laws and regulations. These policies provide procedures and timelines for the disclosure of: material contracts, agreements and events that may impact on the control, ownership, and strategic direction of the Company, director and executive compensation policy, disclosures of groups or individuals who hold five percent or more ownership interest in the Company, significant cross-shareholding relationship and cross guarantees, as well as the nature and scope of the Company's ownership in other entities, annual and quarterly consolidated reports, cash flow statements and special audit revisions, consolidated financial statements and interim reports, changes to its corporate governance manual and practices, information necessary for shareholders decision making, trading of Company shares by directors, officers and controlling shareholders, annual reports, and any material event or information.

BOARD RISK MANAGEMENT COMMITTEE

The Board is committed to establishing a fully functioning enterprise risk management system. The Board oversees the Company's risk management functions through the Board Risk Management Committee (now the Board Risk and Reputation Management Committee). The Board has adopted a formal risk management policy to guide and direct the Company's risk management and compliance processes and procedures. In 2009, the Company's Chief Risk Management Officer established the Company's Enterprise Risk Management platform in accordance with internationally recognized standards. (*See Risk Management Report of the Chief Risk Management Officer*)

The Board Risk Management Committee represents the Board in discharging its responsibility relating to all risk management related matters across the Aboitiz group companies. Among many tasks, the Committee considers and reviews operational risks, environmental risks, financial asset risks, security risks, and any other form of risk as approved by the Board, with the objective of assessing exposures and strategies, and recommending actions to mitigate these risks. This Committee does not have decision-making authority, except in the circumstances outlined in the Manual or to the extent that the Board expressly delegates certain authority to it.

The primary purpose of the Board Risk Management Committee is to assist the Board, and to some extent the Board Audit Committee, in fulfilling the corporate governance responsibilities relating to risk management. The Board Risk Management Committee also assists in defining the Company's risk appetite and oversees the risk profile and performance against the defined risk appetite. It is also responsible for overseeing the identification, measurement, monitoring and controlling of the Company's principal business risks.

The Board Risk Management Committee is composed of three directors, two of whom, are independent, as well as two non-voting members, the Chief Financial Officer and the Chief Risk Management Officer.

The table on the right is the membership of the Board Risk Management Committee.

Board Risk Management Committee	
Enrique M. Aboitiz, Jr.	Chairman
Erramon I. Aboitiz	President and Chief Executive Officer
Jose R. Facundo	Independent Director
Jakob G. Disch	Independent Director
Iker M. Aboitiz	Ex-officio Member
Rolando C. Cabrera	Ex-officio Member, AEV Chief Risk Management Officer

In its 2011 meetings, the Board Risk Management Committee reviewed, discussed, updated, and approved the following matters:

February 2, 2011	May 12, 2011	August 11, 2011	November 10, 2011	November 10, 2011 (Joint with Board Audit Committee)	February 1, 2012
Enterprise Risk Management (ERM) Group 2011 Key Initiatives	2011 Enterprise Risk Management Preliminary Report	Key Points from July 27 Meeting with Gregg Li	Risk Management Philosophy and Policy	Delineation of Risk Management and Audit Committee Roles	Formation of Risk and Reputation Committee
Business Risk Management	Business Community Management (BCM) Overview	Risk Appetite and Risk Tolerance	AEV and AP Risks	Reputation Management Oversight	Risk Management Team Status Report and 2012 Plans
Insurance Risk Management	Group Terrorism Insurance Update	ERM and BCM Timelines	BCM Update	Joint Risk Management and Audit Committee Meetings Schedules	
	Risk Based Audit (RBA) Update	ERM Organization	Insurance Risk Management Update		
	Authorization Limits Presentation	2011-2012 Insurance Renewal Strategy	Project Risk Management Mandate		
		Benchmarking vs. Aon Global Risk Survey			

Attendance record of the Members of the Board Risk Management Committee has been exemplary. Individual directors' record of attendance at meetings of the Committee has been 92.86% and overall percentage of directors present at said meetings has been 94.44% as shown below.

Board Risk Management Committee Meetings								TOTAL NO. OF MEETINGS ATTENDED BY EACH MEMBER	PERCENTAGE OF ATTENDANCE
COMMITTEE MEMBERS	Feb. 2, 2011	May 12, 2011	Aug. 11, 2011	Nov. 10, 2011	Nov. 10, 2011***	Feb. 1, 2012			
Antonio R. Moraza, Chairman *	P	P	-	-	-	-	2/2	100.00%	
Enrique M. Aboitiz, Jr., Chairman**	-	-	P	P	P	P	4/4	100.00%	
Erramon I. Aboitiz, Member	P	P	P	P	P	P	6/6	100.00%	
Jose R. Facundo, Independent Director	P	P	P	P	P	P	6/6	100.00%	
Jakob G. Disch, Independent Director	P	A	P	P	P	P	5/6	83.33%	
Iker M. Aboitiz, Independent Director	P	A	P	P	P	P	5/6	83.33%	
Rolando C. Cabrera, Ex-officio Member, AEV Chief Risk Management Officer	P	P	P	P	P	P	5/6	83.33%	
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	6/6	4/6	6/6	6/6	6/6	6/6		92.86%	
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100.00%	66.66%	100.00%	100.00%	100.00%	100.00%	94.44%		

* Mr. Antonio R. Moraza was the Chairman of the Board Risk Management Committee until May 16, 2011. He was replaced by Mr. Enrique M. Aboitiz, Jr.
 ** Mr. Enrique M. Aboitiz, Jr. was appointed as Chairman on May 16, 2011.
 *** There was a joint meeting together with Board Risk Management Committee and Board Audit Committee.

The Board Risk Management Committee's initiatives for 2011-2012 focused on the following key items: quality assurance review of its internal audit teams, the Business continuity management review and Claims Management protocols. (See Risk Management Report)

BOARD AUDIT COMMITTEE

The Company established an internal audit group, the Corporate Audit Team, which is overseen by the Board through the Board Audit Committee. The Board Audit Committee represents the Board in its oversight responsibility over all audit-related matters of the Company's group companies. It oversees the optimization of effective financial management, as well as compliance with regulatory reporting requirements for all BUs. The Board Audit Committee oversees the function of the Corporate Audit Team in maintaining a comprehensive enterprise-wide compliance program and a robust and an institutionalized quality service platform for the Company's internal audit functions that are annually reviewed. The Board Audit Committee, in conjunction with the Corporate Audit Team, performs the following functions: reviews and approves non-audit services conducted by the external auditor and corresponding fees, assesses and recommends the external auditor on behalf of the Board to ensure a selection of credible, competent, external auditor with the ability to understand the complexity of the entire range of the transactions of the Company, provides the Board with adequate and relevant information on the external auditors for a fair and transparent selection or tender process, and schedules regular meetings and dialogues with the external audit team (with and without management teams present). The Company's CFO, an ex-officio member of the Board Audit Committee, attends meetings between the Board Audit Committee and the external auditor primarily to ensure (a) immediate clarification and feedback of audit issues to the Audit Committee, and (b) prompt instructions to the Company of any policy that the Board Audit Committee proposes to implement. The Company follows the policy of rotating lead audit partner of external auditors every five years.

Existing corporate audit policies require that the financial reports are attested to by the CEO and CFO and that a sound internal audit, control and compliance system is in place and working effectively in the Company.

The Corporate Audit Team ensures that that existing Company mechanisms allow all stakeholders to raise valid audit issues to the Board Audit Committee. The Company's internal audit team is underwent preparation for an ISO 9001:2008 Quality Management System to further raise the quality of internal audit services of the Company to itself and to all BUs.

The Board Audit Committee's executive decision-making authority is limited to the circumstances listed in the Manual and to such delegated authority issued by the Board. By defined policy, the Board Audit Committee recommends to the Board of Directors the choice of external auditor and pre-approves audit plans and the scope and frequency of audits before an audit is actually conducted. Services of external auditors for the years 2008, 2009, 2010 and 2011 were preapproved by the Board Audit Committee. The Board Audit Committee also reviews the extent and nature of these services to ensure that the independence of the external auditors, are preserved.

The Board Audit Committee is composed of at least three directors. Currently, three Independent Directors sit in the Committee, and two non-voting members in the persons of the CFO and AEV's Chief Risk Management Officer. The Chairman of the Board Audit Committee is an Independent Director. Each member, generally with accounting and finance backgrounds, has adequate understanding, familiarity and competence on most of AboitizPower's financial management systems and environment.

The table on the right is the membership of 2011-2012 Board Audit Committee.

Board Audit Committee	
Jose R. Facundo	Chairman/Independent Director
Romeo L. Bernardo	Independent Director
Jakob G. Disch	Independent Director
Mikel A. Aboitiz	Director
Jaime Jose Y. Aboitiz	Director/Executive Vice President and Chief Operating Officer-Power Distribution Group
Iker M. Aboitiz	Ex-officio Member
Rolando C. Cabrera	Ex-officio Member, AEV Chief Risk Management Officer

For the year 2011-2012, the Board Audit Committee met on the following matters:

March 2, 2011	April 1, 2011	May 4, 2011	July 26, 2011	November 3, 2011	November 10, 2011 (Joint with Board Risk Committee)	February 29, 2012
Presentation of the Results of the 2010 Audit by Sycip, Gorres and Velayo (SGV), the Company's External Auditor	Discussion of SEC Comments on the 2009 AP Corporate Financial Statements and Approval of Resolutions	Presentation of the First Quarter 2011 Financial Statements and Results of Operations	Presentation of the First Half 2011 Financial Statements and Results of Operations	Presentation of the Third Quarter 2011 Financial Statements and Results of Operations	Delineation of Risk Management and Audit Committee Roles	SGV Presentation of Audit Results of Financial Year 2011
Presentation of the 2010 Financial Results		Presentation of the 2011 First Quarter Audit Highlights	Disclosure and Approval on Appointment of External Auditors	External Auditor Presentation of the 2012 Audit Plan	Reputation Management Oversight	AP Year-to-Date 2011 Financials
2010 Year-end Internal Audit Report and 2010 Audit Plans			Presentation of the 2011 First Half Audit Highlights	Presentation of the 2011 First Half Audit Highlights	Proposed Joint Risk Management and Audit Committee Meeting Schedules	Presentation of Group Internal Audit
2010 Report of the Compliance Officer				Group Internal Audit Future Organization		Updates on EQAR Action Plans
Recommendation to submit for approval of stockholders the proposal to delegate to the Board the authority to appoint the Company's external auditors						2012 Internal Audit Plans
						Audit Committee Meeting Schedules

The resolution to submit for the approval of the stockholders during the annual general membership meeting, a proposal to delegate to the Board of Directors the authority to appoint the Company's external auditors for 2011. The proposal is intended to give the Board Audit Committee sufficient time to evaluate the different auditing firms who have submitted engagement proposals to act as the Company's external auditor for 2010.

Attendance record of Members of the Board Audit Management Committee has been exemplary. Individual directors' record of attendance at meetings of the Committee has been 91.83% and overall percentage of directors present at said meetings has been 91.83% as shown below.

Board Audit Committee Meetings									
COMMITTEE MEMBERS	March 2,	April 1,	May 4,	July 26,	Nov. 3,	Nov. 10,	Feb. 29,	TOTAL NO. OF MEETINGS ATTENDED BY EACH MEMBER	PERCENTAGE OF ATTENDANCE
	2011	2011	2011	2011	2011	2011*	2012		
Jose R. Facundo, Chairman (Independent Director)	P	P	P	P	P	P	P	7/7	100.00%
Romeo L. Bernardo, Independent Director	P	P	P	P	A	P	P	6/7	85.71%
Jakob G. Disch, Independent Director	P	P	A	P	P	P	P	6/7	85.71%
Mikel A. Aboitiz	P	P	P	P	P	A	P	6/7	85.71%
Jaime Jose Y. Aboitiz	P	P	P	A	P	P	P	6/7	85.71%
Iker M. Aboitiz, Ex-Officio Member	P	P	P	P	P	P	P	7/7	100.00%
Rolando C. Cabrera, Ex-Officio Member, AEV Chief Risk Management Officer	P	P	P	P	P	P	P	7/7	100.00%
TOTAL NO. OF DIRECTORS PRESENT IN EACH MEETING	7/7	7/7	6/7	6/7	6/7	6/7	7/7		91.83%
PERCENTAGE OF NO. OF DIRECTORS PRESENT IN EACH MEETING	100.00%	100.00%	85.71%	85.71%	85.71%	85.71%	100.00%		91.83%

* There was a joint meeting together with Board Risk Management Committee and Board Audit Committee

OTHER COMPANY COMMITTEE & GROUP INITIATIVES

Aside from the Board Committees established under the Manual, the Company has other policy recommendatory and evaluation committees, such as, but not limited to, the AP Generation Companies Management Board and the AP Distribution Utilities Management Board. Furthermore, the Company is an active participant in the AEV Corporate Center's the Human Resources Committee, the LexCom and the Government Relations Committee.

Since power generation and power distribution comprise the core businesses of the Company, the functional boards, namely AP Generation Companies Management Board and AP Distribution Utilities Management Board, provide the alignment, monitoring and execution of the Company's business strategies and that of its Business Units. These functional management boards meet every month to discuss financial operations, marketing and sales development, and basic general operational issues concerning the Business Units.

The LexCom is one of the Aboitiz Group's institutional venue enabling members of the Legal & Corporate Services Team to meet with the executive management to discuss legal issues and concerns that affect the group. It is overseen by the AEV's CFO and managed by the Chief Legal Officer of Aboitiz Equity Ventures, Inc. The legal risk management expertise of the LexCom is made available to the Company. The Company allows the LexCom to have a degree of oversight over the Company's compliance with laws and regulations. AEV's Chief Human Resources Officer and Chief Risk Management Officer, together with the Company's Chief Financial Officer, legal team of the Legal and Corporate Services, and the regulatory and legal team of AboitizPower's BUs participate in the LexCom meeting. The members report, discuss and assess corporate governance compliance track records, identification and mitigation of legal risks, review of litigation management procedures, tax protocols, current litigation issues and other related matters affecting the Aboitiz Group of companies, including overall legal expenditure of the Company's BUs. The LexCom meets every two months to regularly update management on ongoing projects or activities of the Legal and Corporate Services Team. The purpose of these meetings is to provide Executive Management with up to date and relevant legal developments within the subsidiaries and affiliates of the Company. The LexCom reviews if there are any requests for waivers or exemptions of company governance rules. The LexCom initiates the formal adoption of the Company's code of ethics and proper conduct that guides individual behavior and decision making, clarifies responsibilities, and informs other stakeholders on the conduct expected from company personnel.

The LexCom sets the policies and procedures for curbing and penalizing company or employee involvement in unethical behavior, such as offering, paying and receiving inappropriate rewards.

The Office of the Chief Legal Officer is responsible for ensuring compliance by the Company, its subsidiaries and affiliates, with all relevant laws, rules and regulations, as well as all regulatory requirements, including the protection and respect for intellectual property rights. The LexCom is responsible for the comprehensive legal compliance program of the Company. As part of its program, the LexCom and the Office of the Chief Legal Officer oversee the appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances by the employees and the BUs. The Company has a regulatory compliance team that handles compliance issues for the Company. The Company also has a government relations committee composed of senior management and certain members of the Board, having oversight over the Company's legal and administrative concerns and issues.

The LexCom also reviews or recommends the appropriate dispute resolution system for conflicts and differences with counterparties, particularly with shareholders and other key stakeholders to ensure that they are settled in a fair and expeditious manner from the application of a law, rule or regulation especially when it refers to a corporate governance issue. The Office of the Chief Legal Officer explains the rationale for any such action as well present the specific steps being taken to finally comply with the applicable law, rule or regulation.

The LexCom Functional and Strategic Structure below provides a two way channel for vetting and dealing with legal issues and corporate governance matters for the Company.

THE RIGHT OF SHAREHOLDERS

EFFECTIVE EXERCISE OF SHAREHOLDERS' RIGHTS

The Company ensures the genuine exercise of shareholders' rights as granted by the Corporation Code of the Philippines, by other related laws and by its corporate covenants under the Company's By-Laws, and the Company's Manual.

Foremost among corporate governance principles established by your Company is its assurance that shareholders enjoy all the rights granted by the Corporation Code of the Philippines. The Board and management team ensure the promotion of these rights and have been mandated to institute remedial measures to swiftly address any violation or transgressions.

ONE SHARE - ONE VOTE

The exercise of a shareholder's voting right is encouraged by the Company to ensure meaningful participation in all shareholders' meetings. The Board is directed to remove excessive costs and other administrative or practical impediments to a shareholder's right to vote.

Voting methods and vote-counting systems employed by the Company are clearly explained to ensure the effective exercise of Shareholders' right to vote. As earlier mentioned, the Company follows the system of cumulative voting for the election of directors, to allow shareholders an opportunity to elect each member of the Board of Directors individually. Other matters are also decided through voting by shares of stock. The Company adheres to the one-share-one-vote policy for the same class of shares. Proxy voting is allowed at all meetings and is facilitated through proxy voting forms. In its regular board meeting last November 12, 2010, the Board of Directors of the Company approved the deletion of the notarization requirement of proxy forms to be used in all shareholders' meetings of the Company. This is to facilitate easy voting by shareholders, in line with the Company's efforts to improve corporate governance practices. As such, the amendment of the Company's By-laws to remove the notarization requirement, while approved by the Board, will also be presented to the shareholders for their understanding.

The counting of shareholders' votes is done in accordance with the general provisions of the Corporation Code. The Office of the Corporate Secretary supervises the counting of votes.

PRE-EMPTIVE RIGHTS

Pre-emptive rights to subscribe to the capital stock of the Company, if offered, are also available pursuant to the Company's Corporation Code. The Company's Articles of Incorporation states the specific rights and powers with respect to each class of shares. Such rights and powers are protected insofar as they do not conflict with the Corporation Code.

The Company adopts the policy of statutory shareholder voter protection requirements of the Corporation Code of the Philippines and the rules of the PSE which require either supermajority vote or majority of minority vote on certain transactions.

The Company consistently provides all shareholders with the notice and agenda of the annual general meeting at least thirty (30) days before a regular meeting and twenty (20) days before a special meeting. The Company also publishes Notices of Shareholders' Meetings in national newspapers of general circulation. Under the Company's By-Laws, shareholders may call a special shareholders' meeting, submit a proposal for consideration at the annual general membership or the special meeting. The Company makes it a point that the external auditor and other relevant individuals attend the annual shareholders' meetings to answer shareholder questions in such meetings. The office of the Corporate Secretary ensures that all relevant questions during the annual shareholders' meetings are answered and recorded.

The Company has clear and enforceable policies with respect to treatment of minority shareholders. Compliance with the Corporation Code ensures shareholder against anti-takeover maneuvers or similar devices that may entrench management or the existing controlling shareholder group to avoid shareholder opportunism, and provides all shareholders with accurate and timely information regarding the number of shares of all classes held by controlling shareholders and their affiliates.

The Company recognizes other ownership rights beyond voting. In addition to the right to vote, the Company's shareholders have the right to: inspect the corporate books and records, be furnished annual reports and financial statements without costs and restrictions, access to information, receive dividends in accordance with the Company's dividend policy, and to exercise its appraisal right. When applicable, the Company commits to follow the mandatory tender offer requirements under the Securities Regulation Code.

RIGHT TO INSPECT CORPORATE BOOKS AND RECORDS

The Company recognizes the shareholders statutory right to access of certain Company information and records. Shareholders enjoy the right to inspect corporate books and records, including minutes of Board and Stockholders' meetings and the stock and transfer registry records affecting their shares. The Office of the Corporate Secretary ensures that all minutes of annual and special meetings of shareholders clearly and satisfactorily reflect all matters taken up at these meetings. The issues and motions raised, agreements arrived at during the meetings and corporate acts approved or disapproved are concisely reported. Resolutions and corporate acts approved or disapproved by the shareholders or Board of Directors are accurately recorded in the minutes. The Corporate Secretary dutifully records the minutes of the meetings and notes the attendance of the members of the Board of Directors and other key officers, who are identified at meetings.

RIGHT TO INFORMATION ON THE CORPORATION

Pursuant to the corporate governance principle of disclosure and transparency, information on the Company is made readily available. The Company provides shareholders with periodic reports that include information about the Board of Directors and key officers, including relevant professional information on the Directors and Officers, their shareholdings and dealings with the Company and their aggregate compensation.

The Investor Relations Officer and the Office of the Corporate Secretary have an established communications strategy and protocols to promote effective communication with shareholders.

Annual reports and financial statements of the Company may be secured without cost or restrictions and these are also available at the Company's website: www.aboitzpower.com

RIGHT TO PARTICIPATE IN SHAREHOLDERS' MEETINGS

The Company strives to maintain a transparent and fair conduct of its annual and special shareholders' meetings and ensures that accurate and timely information are available to the shareholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The Annual Report, distributed prior to and during the annual stockholders meeting and available from the Company's website, includes the highlights and summary of the financial condition of the Company. The Information Statement filed with the SEC is prepared with the objective of providing full and accurate information enabling stakeholders to make informed decisions. Shareholders are provided with individual profiles of new and returning directors, as well as a summary of the Board meeting attendance and performance record of its directors.

The Company's policy on directors' compensation is disclosed to shareholders, and the proposed directors' compensation is presented for shareholder approval at the annual stockholders' meeting.

In 2011, all of AboitzPower's directors receive a monthly allowance of P100,000 except for the Chairman of the Board who receives a monthly allowance of P150,000. In addition, each director and the Chairmen of the Board and the Board Committees received a per diem for every Board or Committee meeting attended.

Information on SGV, the Company's external auditors, is also disclosed to all shareholders, together with the name of the current audit partner and the engagement fees charged by SGV.

SGV has been the Company's external auditing firm for the last 13 years. By policy, the Company changes its audit partner every five years.

The Chairman of the Board of Directors, the CEO and the chairmen of the various Board Committees all attend the annual shareholders' meetings of the Company to answer any questions shareholders may have concerning the Company. Likewise, the Chairman and all members of the Board of Directors and other key officers are present at the shareholders' meeting and have been present at the past three annual shareholders' meetings. It is also the practice of the Company to hold a separate shareholders' briefing in Makati City two days after the annual shareholders' meeting to give shareholders who could not attend the Annual Shareholders' Meeting in Cebu City an opportunity to listen to the presentation by the Board and top Management on the current state of the Company's business and affairs and to ask any questions from the Directors and Officers.

RIGHT TO RECEIVE DIVIDENDS

The Company has a clear and transparent dividend policy. This is disclosed in the Operational and Financial Information section of the Annual Report, in the Information Statement and in the Report of its Chief Financial Officer. The Company maintains an annual cash dividend payment ratio of approximately one-third of its consolidated net income from the preceding fiscal year, subject to the requirements of applicable laws and regulations and the absence of circumstances that may restrict the payment of cash dividends. These circumstances include major projects and developments requiring substantial cash expenditure or restrictions on cash dividend payments under its loan covenants. Cash dividends declared by the Company to common stockholders from 2010-2012 are shown in the table below. (See *Management's Discussion and Analysis or Plan of Action in the Annual Report*)

Year	Cash Dividend Per Year	Total Declared	Record Date
2012	P1.32	P9.71bn	3/16/2012
2011	P1.32	P9.71 bn	3/17/2011
2010	P0.30	P9.71 bn	3/24/2010

APPRAISAL RIGHT

Shareholders enjoy the appraisal right or the right to dissent and demand payment of the fair value of their shares. The right is exercised under circumstances provided in the constitutive documents of the Company and within the statutory requirements of Section 82 of the Corporation Code of the Philippines, which disallows payment of such shares if the Company has no unrestricted retained earnings in its books to cover a payment.

EQUITABLE TREATMENT OF SHAREHOLDERS

VOTING RIGHTS OF MINORITY SHAREHOLDERS

The Company believes in the value of building a sustainable and long-term relationship with its shareholders, and ensures that the Company's minority shareholders are equitably treated. All minority equity shareholders of AboitizPower are entitled to the same voting rights as the other shareholders. The Company adheres to the one-share-one-vote policy for matters requiring shareholder approval and, through the cumulative voting system, allows minority shareholders the ability to influence Board composition. However, the removal of a director will not be allowed if this will result in a denial of minority shareholders representation in the Board.

These practices are aligned with the recommendations of the Bebchuk and Hamdani Harvard study for companies with controlling shareholders. Substantial weight should be put on the allocation of power between the majority and the minority or arrangements that empower minority shareholders (or limit the power of the majority shareholders) with respect to certain decisions and with the ability to influence board composition.

Other rights enjoyed by minority shareholders include the right to propose the holding of a meeting and the right to propose items in the agenda of the meeting, provided that these items are for legitimate business purposes. The minority shareholders have access to any and all information relating to matters for which Management is accountable for and other information that is necessary. If certain information is not included, then the minority shareholders can propose to include legitimate matters in the agenda of shareholders' meeting.

FAIR DEALINGS FOR ALL SHAREHOLDERS

As a publicly listed holding company, the Company is subject to numerous laws and regulations. It is the responsibility of everyone within the organization to know and understand the laws applicable to their job functions and to comply with both the letter and spirit of these laws and regulations to avoid actual misconduct and any appearance of impropriety. The Board Corporate Governance Committee is currently codifying its Director's Code of Conduct to highlight its responsibility of fair dealings. Every employee is responsible for fair dealings with the Company's suppliers, customers, creditors, analysts, market intermediaries and participants. The Company also has a policy requiring full disclosure of details of related-party transactions in public communications.

The Company's Code of Ethics and Business Conduct outlines the general expectations of, and sets standards for employee behavior and ethical conduct. Board members, Management and all other employees are informed of the Code and strict adherence is enjoined. The Code encompasses prohibited practices involving conflicts of interest, proper dealings with proprietary and confidential information, and truthful disclosures in the best interests of the clients, the Company, and the public.

The Company strictly enforces a Policy on Trading of Company securities. The Policy imposes a trading blackout on AboitizPower securities beginning ten trading days before and until two full trading days after the release of the quarterly or annual earnings of the Company. The Chief Compliance Officer sends out notices requiring the strict observance of the trading blackout via various media (email and short messaging services) to all the Directors, Officers and identified key employees of the Company during any relevant blackout period. Because non-compliance with the policy may carry criminal and civil liabilities as well as reputational damage to the Company, the Board, the Management and the Office of the Chief Compliance Officer enforce compliance with this Trading Policy.

Insider trading is strictly prohibited under the Code of Ethics and Business Conduct and the Manual and under the PSE Rules. The Amended Manual prohibits every member of the AboitizPower organization from any misuse of inside information. All team members of the Company are mandated to exercise prudence in handling material non-public information in the course of their work and in relation to the trading or dealing with AboitizPower securities.

For purposes of compliance with these rules, the Office of the Corporate Secretary conducts corporate governance seminars for all employees, from top management to team members. The seminars cover the rules prohibiting insider trading among many other topics on corporate governance rules of the Company.

The Company promotes a culture of service, excellence and leadership. We believe that this environment promotes the recognition of a duty for employees and officers to advance the Company's interests and that of its stakeholders. No employee, officer or director may use his position or corporate property or information for personal gain, and no employee, officer or director may take for himself Company opportunities for sales or purchases of products, services or interests. Protection of proprietary and confidential information generated and gathered in the conduct of business is considered the obligation of every member of the Company's organization. Everyone is also expected to respect the property rights of other companies.

AboitizPower employees and officers are encouraged to promptly report any potential relationship, action or transaction that may give rise to a conflict of interest to the Human Resources Department or to the Chief Compliance Officer. Directors are under the obligation to disclose any actual or potential conflicts of interest to the Chairman of the Board, to the Corporate Secretary, and to the Chief Compliance Officer. All Directors are also required to inhibit themselves from any Board discussion or decision affecting their personal, business or professional interests. Legal proceedings involving Directors and Officers that could affect their ability and integrity to serve the Company are required to be disclosed to the Chief Compliance Officer. No issues relating to related party transactions or conflict of interest has been raised in the past or recent years.

DISCLOSURE AND TRANSPARENCY

The Company is committed to elevating its standards of disclosure and transparency and the quality and depth of its corporate governance practices to enable the investing community to understand the true financial condition of the Company. Through the Investor Relations Office, the Annual Report, the Company website, the Company's Information Statement and all disclosures to the PSE and SEC, the Company publishes timely material information on its businesses.

DISCLOSURE OF MATERIAL INFORMATION

The Company periodically submits to the PSE a public ownership report detailing the extent of ownership of controlling shareholders, including the shareholdings of their subsidiaries and affiliates, and that of the Directors and Management. It submits to the PSE a list of its top 100 shareholders every quarter. It also discloses its top 20 shareholders, including shareholders of record and beneficial owners owning more than five percent of the Company's outstanding capital stock, and shareholdings of its Directors and Officers in the Company's Information Statement, and sent out to shareholders annually. The Company, however, has no control over outside shareholders who may choose to put their shares under nominee holding companies such as the PCN Nominee Corporation, and is thus unable to make any disclosure on details of that ownership.

The Company strives to publish a clear, comprehensive and informative Annual Report (*See sections on Management Discussion and Analysis or Plan of Action, the Audited Financial Statements and Results of Operations of the Annual Report, the Shareholders' Report and Results of Operations section*).

The Company has a policy on transparency of compensation for its Directors and key executives, to the extent allowed by law. Information on the basis of Board remuneration is readily accessible through the Company's Annual Report and its Board Corporate Governance Committee minutes. The Board Corporate Governance Committee ensures that the Directors and executives' remuneration is consistent with the Company culture, strategy and business policies at a level sufficient to attract and retain directors and officers who are needed to run the Company successfully. The Company rewards its individual Directors and Officers based on ability to execute their duties and responsibilities. It is the Company's philosophy to reward officers and employees based on individual performance measured through established Human Resources management metrics. Performance is evaluated and compensation is reviewed on an annual basis. The Company ensures that it pays its directors and officers competitively by comparing rates with other Philippine-based companies through participation in and access to market salary surveys.

The Company is compliant with the requirement for the Members of the Board of Directors and management to report or disclose to the SEC and the PSE, within five trading days from the disclosed transaction, any acquisition, disposal or change in their beneficial shareholdings in the Company. This is to monitor and ensure a proper relationship between Directors and the Company. Under its Manual, Directors have a duty to avoid conflicts of interest. Thus, a director must not do anything for and on behalf of the Company where his motivation and loyalties would be divided, or would result in favoring his own self-interest, or allowing someone connected or related to him to be given equal or higher stature to that of the Company. Directors have a duty to account to the Company for any profit or gain he may have obtained as a result of such activities. The Company may thus exercise certain rights against the director for acting in circumstances such as conflict of interest.

TRANSPARENCY OF AUDIT PROCESS

The Company's Corporate Audit Team and the Board Audit Committee conduct the Company's internal audit operations. The Corporate Audit Team conducts its own internal audit, providing an independent review of the Company's organizational and operational controls and risk management policies to ensure its effectiveness and appropriateness, and that they are complied with. The Corporate Audit Team reports to the Board Audit Committee.

With an independent audit function, the Corporate Audit Team provides reasonable assurance that the Company's key organizational and procedural controls are effective, appropriate and complied with. The team is also responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems. They do this by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems.

The Corporate Audit Team adheres to established professional standards and such standards promoted by the Institute of Internal Auditors' Code of Ethics.

The Board Audit Committee assists the Board of Directors in its oversight responsibility of monitoring the quality and integrity of the accounting, auditing, legal, ethical and regulatory compliance, risk management and reporting practices of the Group and such other duties as directed by the Board. The Committee assists the Board in fulfilling its responsibility of corporate governance. The role and responsibilities of the Board Audit Committee are clearly defined in the Amended Manual, specifically the Audit Committee Charter. The Independent Director who acts as Chairman of the Board Audit Committee signs off on all Board Audit Committee Reports.

Aside from an internal audit, an annual external audit of the Company is performed by SGV, an independent, competent and qualified auditor. SGV has been the Company's external auditors for the fiscal years 1998 to 2011. SGV provides an external and objective assurance to the Board and shareholders that the financial statements fairly represent the financial position and performance of the Company in all materials aspects. Mr. J. Carlitos G. Cruz was the audit partner for the Company for 2009-2010. Prior to him, Mr. Ladislao Z. Avila served as the audit partner of the Company from 2004 to 2008. Our external auditors also attend the Company's annual stockholders' meeting to respond to questions on the Company's audited financial statements for 2010. They also have the opportunity to make a statement if necessary. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

There has been no event in the past 13 years where the Company and its external auditors or the handling partner had any serious or material disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

LINKAGES TO THE COMPANY

The Company website contains up-to-date corporate information of the Company, including details of its business operations. The Investor Relations Section of the Company website provides financial highlights, recent press releases and information on the shareholding structure and organizational structure of the Company, among others. An electronic copy of the Annual Report including the Corporate Governance Report can also be downloaded from the website. In addition, Management regularly provides updated news on the Company website.

The contact details for the Company's Investor Relations Office and shareholders inquiry point person is available on the website.

RELATED PARTIES TRANSACTIONS DISCLOSURES

As mentioned previously, the nature and extent of transactions with affiliated and related parties are disclosed annually to shareholders through the Company's Information Statement, Annual Report and Audited Financial Statements. The Company and its subsidiaries enter into related party transactions consisting of payment of shareholder advances, professional fees and rental fees. These are made on an arm's length basis and at current market prices at the time of the transactions. Service and management contracts are also entered into with subsidiaries and affiliates for corporate center services, such as human resources support services, internal audit services, legal and corporate compliance services, treasury and corporate finance services, technology infrastructure services. These services are obtained from the Company to enable the Aboitiz group of companies to realize cost synergies. The Company maintains a pool of highly qualified professionals with in-depth business expertise specific to the businesses of the Company's organization. Transactions are priced on a cost recovery basis. In addition, transaction costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Commitments and Agreements are executed to ensure quality and timeliness of services.

CORPORATE GOVERNANCE AND THE ROLE OF ABOITIZPOWER STAKEHOLDERS

The Company has a corporate policy and an entrenched culture that recognizes and protects the rights and interests of key stakeholders, specifically its employees, suppliers and customers, creditors, as well the community, environment and other key stakeholder groups.

COMPLIANCE WITH HEALTH, SAFETY AND ENVIRONMENTAL LAWS

The Company's power generation and distribution operations are subject to evolving and stringent safety, health and environmental laws and regulations. For the year 2011, the Company and its subsidiaries and affiliates have been fully compliant with the standards set forth by law. AboitizPower and all its generation companies and distribution utilities have been granted Certificates of Compliance from the relevant governmental agencies and bureaus requiring certification. The BUs of the Company commit to the expenditure on occupational health and safety measures well worth the investment. The Company has gained recognition for its BUs' operations without accidents, a clear demonstration of how the Company values health and safety measures in the work environment.

For the year 2011, AboitizPower subsidiaries had noteworthy environmental excellence awards. Below are just some of the awards and recognitions received.

- Hedcor, Inc.'s consistent recognition for its occupational health and safety practices and initiatives.
- The Ambuklao and Binga hydroelectric plants of SN Aboitiz Power-Benguet (SNAP-Benguet), were able to successfully register under the Clean Development Mechanism (CDM), or carbon trading under the United Nations Framework on Climate Change (UNFCCC). This is a concrete contribution of the Company to the international response to climate change promoting hydroelectric power projects as a major source of renewable energy for the country. The CDM under the Kyoto Protocol enables industrialized countries that aim in reduction of greenhouse gas to invest in climate friendly project in developing countries, allowing them to develop emission reduction projects to earn carbon emission credits. The CDM registration is the first of its kind in the Philippines at the time of issuance. Also, the Binga Plant won a Silver Award in the Independent Power Producer of the Year category and the Ambuklao Plant received a Silver award in the Renewable Energy Plant Project category. SNAP-Benguet won a Gold Award as Environmental Company of the Year and its management committee was also a finalist in the Best Executive Leadership category at the 2011 CEO Awards held in Makati.
- The Hedcor's Sibulan Hydroelectric Power Plant is also fully registered as a CDM project under the UNFCCC.
- The Company's subsidiaries, AP Renewables, Inc. and Hedcor, Inc., were recently awarded the Seal of Approval under DENR's Philippine Environment Partnership Program for its exemplary environmental performance. These subsidiaries were awarded under "Track 1" category, for "going beyond simple compliance, and being driven by competitiveness, image and supply chain requirements to improve their performance."

Existing regulations, in particular, Energy Regulation 1-94, require the BUs of the Company to allocate funds for the benefit of host communities. Compliance with the mandatory provisions of law is not only for the protection of the natural environment, but for the upliftment of the neighboring communities as well. The Company's subsidiaries have gone beyond mere compliance of governmental enforcement of regulatory requirements on health, safety and environmental laws for strict implementation.

The Company has a long and deep corporate social responsibility culture and program. The Company continues to address the social and economic development needs of the less privileged through outreach activities. The Company and its BUs have been able to obtain the Free Prior and Informed Consent from the Indigenous Communities in areas where the AboitizPower companies operate because of the well-entrenched corporate social responsibility programs of the group. The Company adheres to the practice of priority in hiring qualified disadvantaged individuals in the community for better employment opportunities. The Company prioritizes programs in education, such as but not limited to, scholarship plans, construction or renovation of school buildings, and computer and library kit donations. These programs help improve the learning development of students from all levels in the community. As part of its corporate social responsibility, the Company also engages in enterprise development, microfinance operations and primary health and child care services to improve the quality of life of its beneficiaries. (See Aboitiz Foundation Report) It is committed to sustainability of the earth's resources through a clearly defined Sustainability Program. (See *Sustainability Report*)

The Company recognizes that corporate governance principles revolve around relationships between and among the many stakeholders and the goals for which a corporation is governed. Its principal stakeholders, the shareholders, management teams, employees, Board of Directors, lenders, financing providers and intermediaries, regulators and the community, together contribute to the successful pursuit of the Company's business goals. This is why AboitizPower ensures that its various stakeholders are dealt with fairly and honestly, consistent with its mission and vision and its commitment to service.

THE EMPLOYEE AS A STAKEHOLDER

AEV Corporate HR has a universal training passport program for all employees, which is also extended to the Company's employees. This universal training program includes personal development skills such as Principles of Quality Living, Seven Habits, Creating the Future Organization, Basic Quality Awareness, Working Program, to name just a few technical in-house training skills. The Company adheres to a merit-based performance incentive pay compensation package that includes some form of employee stock purchase plan, merit increase schemes and bonus schemes for performance and incentives to employees.

EMPLOYEE RELATIONS

The Company believes in inspiring our employees, developing their talents and recognizing their value as business partners. The contribution of every employee is important to the fulfillment of the Company's goals. The Company is committed to a workplace in which all individuals are treated with dignity and respect. The Code also promotes a safe and healthy working environment which provides equal employment opportunities and prohibits discriminatory practices.

Employees' professional and personal growth is of paramount concern to the Company and the Company is keen to provide opportunities to deepen employee's understanding of the Company's value-creating proposition. The Company cultivates a culture of life-long learning through high value, relevant, quality training programs designed to support employee career development path and personal growth. The Company's numerous "Kabisig" programs strive to strengthen the ties that bind employees and the Company together. Exemplary performers are nurtured through a talent management program designed for the development of the next generation of corporate leaders. AEV Corporate HR also provides the Company with Key Talent Retention programs for the Company's succession planning.

The Company maintains robust lines of communication between Management and employees, allowing the Company's employees to interact with top executives in the organization and provide opportunities for leadership role models and mentoring. This allows a free exchange of ideas and shared experiences, promoting teamwork, collaboration, cooperation, innovation and diversity within the organization. The Chairman of the Board and the Chief Executive Officer also organize regular formal and informal get-togethers with the Board of the Directors and key officers across the Company and its BUs providing invaluable interaction between the Board and the management team leaders.

RELATIONS WITH SHAREHOLDERS, CUSTOMERS, SUPPLIERS, BUSINESS PARTNERS AND FINANCING PROVIDERS

The Company believes in the value of its shareholders and ensures that its shareholders and investors receive timely, relevant, balanced, high-quality and understandable information about the Company. The Investor Relations Office assures shareholders and investors of an easy and direct access to officially designated spokespersons for clarifying information and issues as well as dealing with investor concerns. AboitizPower's commitment to its shareholders is reiterated annually through its comprehensive reports on its operations, particularly the Company's Report to Stockholders in the Annual Report and through its investors' briefings, investor conferences, non-deal road shows and one-on-one meetings. The Company continually plans website content management initiatives to regularly keep its shareholders updated with the latest Company developments.

The Investor Relations Office conducted investors' briefings in March 4, 2011, May 6, 2011, July 29, 2011 and November 4, 2011 as a forum for investors to discuss the Full Year 2010 Financial Operating Results, First Quarter 2011 Financial and Operating Results, First Half 2011 Financial and Operating Results and Third Quarter 2011 Financial and Operating Results.

In dealings with its customers, suppliers and business partners, the Company abides by the Fair Dealing Policy found in its Code of Ethics and Business Conduct. The basis of the policy is the Company's objective to out-perform its competition fairly and honestly through superior performance. Every employee, officer and director therefore always prioritizes the best interests of the Company's clients and endeavors to deal fairly with suppliers, competitors, the public and one another. No one should take unfair advantage of anyone through manipulation, abuse of privileged information, misrepresentation of facts or any other unfair dealing practice.

Its commitment to its shareholders is reflected in the Company's comprehensive reports on its operations, particularly its Report to Stockholders in the Annual Report. Its senior financial officers, executive officers and directors endeavor to inform and assure shareholders of the timely discharge of financial responsibilities through the Annual Report of the Company. The Audited Financial Statements of the Company gives a clear view of the Company's financial condition. All pending legal and tax proceedings, tax assessment notices, and voluntary assessment program or tax relief availment that are potentially material to AboitizPower's business are disclosed through the Legal Proceedings section of the Information Statement of the Company.

RELATIONS WITH THE COMMUNITY AND THE ENVIRONMENT

The Company's broader obligations to society and the community are addressed by the Company's continued compliance with its Manual, relevant laws and regulations, and the principles of sustainable development practices by the Company and its Business Units.

The Company is committed to strike a balance between economic growth and social development and environmental stewardship in the conduct of its business, on the other hand. To this end, your Company implements programs that promote environmental preservation, such as the Mt. Apo Natural Park rejuvenation project, and social and economic development in the communities where its businesses operate through the Aboitiz Foundation. The Company's Business Units implement programs designed to make their operations more cost-efficient at the same time foster meaningful and long term partnerships with their host communities. The Company not only respects sustainability of the environment and natural resources, but also considers the immeasurable legacy and culture of indigenous peoples.

The policy of sustainability of businesses is now part of the Company's corporate governance culture. The Company continues to engage in activities leading to sustainable development such as Race to Reduce and Earth Hour. *(See Sustainability Report)*

In 2011, the Company's distribution utility, Davao Light & Power Company, Inc., showed its commitment to make its host communities partners on the road to progress and development by way of granting academic scholarships to over 400 deserving college and high school students and building classrooms for Kindergarten schools. Also, the Company's wholly owned subsidiary, Hedcor Sibulan, Inc., recently awarded generation shares to its host communities amounting to P10.1 million in observance of the second year of commercial operation of the 42.5-MW Sibulan Hydroelectric Power Plant.

The Company believes that for it to continue to grow and flourish, it has to operate within a rational financial model, with a collaborative community, and within sustainable ecological framework. As the Company looks to the providing better solutions for a better future, it remains cognizant of its power to uplift the future of our communities.